Answer Key

ECONOMICS

WORK & PROSPERITY

in Christian Perspective ★ ★ ★

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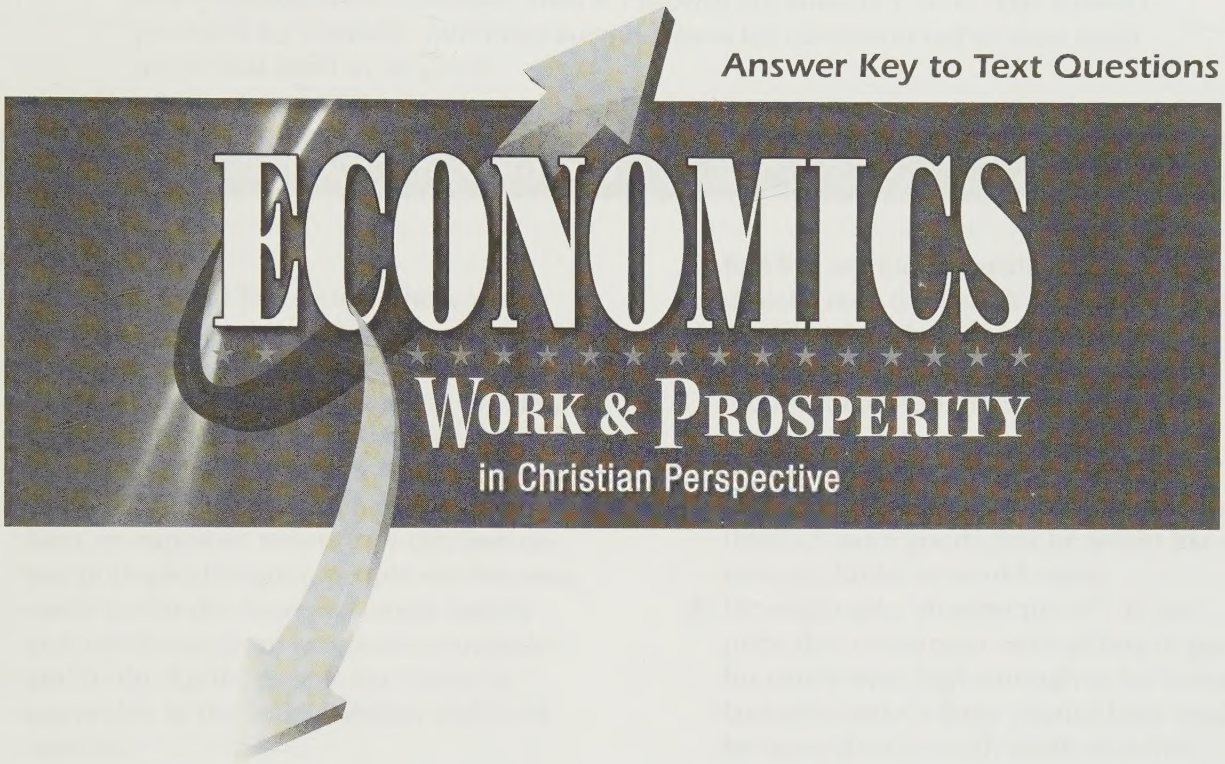
Answer Key to Text Questions



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***Economics* Answer Key to Text Questions**
For use with third edition of the text

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Answer Key
to Text Questions

NOTE: For your convenience in checking student assignments or for classroom review, all text questions from *Economics: Work & Prosperity* are answered here. The answers provided for Consider questions are guidelines for discussion rather than exact words that need to be given.

Chapter 1 Everybody's Economics pp. 2–16

Consider 1.1 (p. 3)

1. After Adam and Eve sinned, the world became a dangerous and deadly place. Unlike people, animals have long teeth or claws for fighting off enemies, and they have fur or tough hides to protect them from the elements or from being easily wounded. In deserts, humans die of thirst, heat, or exposure unless they can find oases; in tropical jungles, people can become easily lost or die from poisonous insects and reptiles or from carnivorous animals; and in the Arctic, people can freeze or starve due to the lack of shelter and food sources.
2. If an individual knows little about economic principles, he is likely to make many costly mistakes and wrong decisions that could cost his job, career, or reputation. Answers will vary.

Consider 1.2 (p. 5)

1. The London merchants and bankers who lent money to the Plymouth colonists charged high interest rates because of the high possibility that the Pilgrims might never be able to repay the whole amount that they owed.
2. Although the Pilgrims were connected by a strong religious faith and most of them were hardworking people, the policy of share-and-share-alike was unsuccessful. This form of Communism caused confusion, discontent, and a lack of food and other goods because the Pilgrims did not feel like working heartily unless they could directly reap the benefits. A person will work harder when he is working for his own advantage than when he works for the interest of a community.

Consider 1.3 (pp. 7–8)

1. Human nature is such that man can always think of more goods that he would like to have or thinks he would enjoy.
2. He might ask, "At what price?" If the price that consumers were willing to pay for candy were high enough to let manufacturers make a large profit, there would be more than enough candy in a free economy; if producers receive too little to make a profit, there will be a shortage of candy.
3. All these examples fall within economists' general definition of the word *market.* Students could be encouraged to think of other forms of markets.
4. Answers will vary. There are also evil, sinful motives such as the lust for power, the desire to injure the weak and innocent, and the desire to destroy order and harmony in a society.

Consider 1.4 (p. 9)

1. Answers will vary. Students will likely think of some general examples such as food, clothing, and shelter, as well as some specific examples like salt, water, fuel, and medical attention.

2. Students may suggest the services of beauticians, barbers, physicians, dentists, post office personnel, cleaners, and so forth. Services also include those that are normally purchased by public money through civic authorities, such as police and fire departments and garbage collection.
3. Answers will vary but may include intangible things such as love, beauty, friendship, etc.

Consider 1.5 (p. 11)

1. The first two references admonish Christians to avoid getting caught up in materialism. God will provide for our needs in His perfect timing according to His perfect plan. Proverbs 28:27 teaches us that it is our responsibility to help those around us who are in need. God will bless those who show mercy and compassion on others.
2. Most people today certainly seem to want far more than what they already have. Some members of society have been known to reject certain material goods in favor of a simpler mode of living, and many Christians give much of their income to help the poor and those who have never heard the gospel.
3. Preferences will vary. A personal need is something that would be difficult to live comfortably without; a personal want is something an individual would like but that is not necessary. What people want most is often not what they need most.
4. Most American workers would no doubt like to be paid $50 an hour, but people can live comfortably on much less. Even though inflation has not yet been discussed, some students may point out that if the candidate's proposal were adopted, the result would be skyrocketing prices. Workers would soon find themselves no better off than they were before the wage hike.

Consider 1.6 (p. 12)

1. There are few goods that do not require capital goods of some sort for their production. Wild, edible food, such as berries and mushrooms, might be regarded as capital-free, but berries grown on a farm or mushrooms that are systematically cultivated in a cellar or cave have been raised using capital.
2. This description fits the African country Libya and several of the Arab states, such as Saudi Arabia, Kuwait, Oman, Qatar, and the United Arab Emirates, all of which have tremendous deposits of petroleum. The sale of this natural resource to productive countries in Europe and America makes these countries prosperous.

Consider 1.7 (p. 15)

1. Many answers may include promotional items and gifts. Although it is possible for some people to receive goods and services without being required to pay for them, somebody has to pay for the raw materials, labor, capital, and entrepreneurship that went into making those goods.
2. Answers will vary.
3. A Siberian tiger would be of little value to a young person if the animal were kept in his private possession. Because there is no productive use the tiger could be put to, the new owner would find the creature's maintenance to be costly and difficult. But to a public zoo in need of such a splendid animal to draw the crowds, the tiger would possess a high value, and the zoo might be willing to pay a large sum to obtain the tiger.

Chapter 1 Review (p. 16)

Define

1. **economics**—the study of the choices that individuals and societies make in the production, distribution, and consumption of goods
2. **economy**—any system for the production, distribution, and consumption of goods and services
3. **economic models**—theories which seek to show the relationships among the various components of an economy
4. **good**—a tangible item that people want and for which they will pay

5. **service**—an intangible good produced by labor for which people expect to pay
6. **want**—the human desire to have and use a certain good
7. **market**—a mechanism that allows people to exchange goods
8. **supply**—the quantity of a good for sale at a certain price under certain conditions; the amount of a good that is produced
9. **demand**—the amount of a good that is bought at a certain price under certain conditions
10. **producer**—a person who works to provide goods
11. **consumer**—a person who uses goods
12. **value**—the worth that consumers attach to a good

Identify

1. "common course and condition"
2. economists
3. economic forecast
4. all goods have to be worked for
5. prodigality
6. capital good, investment good, or capital
7. consumer good
8. Carl Menger

Explain

1. The young men did not want to work to provide for other men's families without recompense; the strong men did not feel like working hard if they were not going to receive any more food or clothes than the weak; the older and more respected men resented being treated like the younger men; and the wives felt it was slavery to do chores for men outside their families. The Pilgrims abandoned the "common course and condition" and assigned each family a tract of land on which to work.
2. Macroeconomics studies national and global economies and how they are affected by large-scale choices and public policies, whereas microeconomics studies specific components within a major economy and how they are affected by the choices made by individuals, households, and businesses.
3. Human nature is such that man can always think of more goods that he would like to have or thinks he would enjoy.
4. A need is a necessity while a want is a desire, longing, or appetite for something.
5. No. Money by itself cannot be used to produce anything.
6. The more useful and scarce a good seems, the more it is valued.
7. Oxygen is not a scarce good under normal circumstances since there is more than enough for everyone to have all the oxygen he wants.
8. Menger was puzzled by the fact that diamonds normally command high prices while necessities such as water usually command low prices. He associated the value of either good with its scarcity and utility, which can vary with a person's geographic location.

Concepts to Consider

1. Answers will vary. Economics is helpful in managing household incomes wisely; achieving a decent standard of living; saving money intelligently; and understanding more about the world. A lack of knowledge can be hurtful if one does not know how to manage money wisely or how to respond intelligently to current affairs.
2. Fallen man is a sinful, lazy creature who would rather not work unless there will be benefit to himself. The need for basic goods and the constant desire for additional goods and services motivates people to work. 2 Thess. 3:10 says that "if any would not work, neither should he eat."
3. Since the fall, there have never been enough goods produced to satisfy all wants. God cursed the ground, and man must work hard to stay alive. People have to make economic choices concerning which wants to satisfy.
4. Answers will vary. Rather than being a menace to society, technology improves the quality of life by producing more food and other goods than ever before. Technology has allowed man to combat many of the effects of disease, famine, and aging, allowing more people to live longer.

Consider 2.1 (p. 18)

1. A law passed by a government is a written statute or command which is enforced by penalizing those who ignore or defy it. An economic law is a general principle that explains the relationship between an action and its result. Government laws have to be artificially enforced, but economic laws enforce themselves.
2. Answers will vary somewhat by regional location, but the principle is that each society is physically incapable of producing certain goods efficiently. For example, copper is found in Utah, but not in Rhode Island, and Nevada does not have a good timber industry. Examples abroad include Saudi Arabia limited by its lack of water power, Switzerland by its lack of petroleum, and Japan by its lack of land.
3. Many students may have never saved to buy capital goods, for items such as new clothes and food are usually not capital. Books, bikes, cars, computers, and lawnmowers are capital if they are used to obtain a job or do work for which the students are rewarded. If these items are used only for their owners' pleasure, they do not count as capital.

Consider 2.2 (p. 20)

1. Although gold coins are valuable goods, they are useless to the owner (except perhaps as security for a loan) unless he uses his gold to acquire either capital goods or consumer goods. If the person with the gold coins has little else, the prosperous farmer is richer in goods.
2. Colonial producers and merchants were required to sell most of their goods in Britain unless they had permission to trade with other countries. In return, the colonies received imported British goods and protection by British military. This system denied colonists the right to sell their wares for good prices and forced them to pay higher prices for goods than they would have if they had been allowed to deal with French, Spanish, and Dutch merchants.
3. The physiocrats believed that the basic wealth of a nation comes from agriculture and mining; they were opposed to the mercantilistic development of manufacturing and commerce. According to the physiocrats, manufacturing was useful, but it was far less important than the land. These views coincided with the beliefs and interests of Jefferson and many other plantation owners, who were champions of rural life and agricultural interests.
4. Free labor is more productive for a variety of reasons: workers are motivated by the prospect of keeping their earnings; free laborers often wish to promote the general welfare of their country; free laborers often work hard so that they can provide for their families. Examples will vary.
5. The true wealth of a nation is measured not in its money supply, but in its capital and its ability to produce. While gold and silver may be exchanged for capital and consumer goods, unless that exchange is successfully made, a nation with much precious metal and little capital is like a miser with a hoard of gold coins who starves himself to death.

Consider 2.3 (p. 24)

1. Adam Smith and Patriot leaders shared the conviction that the increase of wealth in a nation results from intelligent work and not from the accumulation of precious metals. Smith's book was the best expression of the new economic concepts that were taking root in many minds.
2. The wealth of many Arab states centers around their ample oil reserves. However, some rich Arab nations have realized that natural resources are not the true source of real wealth. These countries have used their oil money to build up their stock of capital goods and educate their work forces in fields other than oil production.
3. There is a close connection between morality and economics even though some economists try to maintain that theirs is a "value-free" science. The economic system of the WWII Nazis, with its well-known production

of goods in prison labor camps and forced takeovers of private property, could definitely be considered an immoral system, while a free market system based on private industry, human rights, and moral values would be considered moral. Answers will vary.

Consider 2.4 (p. 26)

1. Answers will vary. Most economists believe the first four to be the most desirable since they actually increase total productivity. In contrast, the last two methods merely use existing resources and methods of production.
2. No government has unlimited resources to distribute free to everybody. A system that tries to provide ample goods for everyone would have the same problems the Pilgrims encountered with their early form of Communism. People would not work, total production would be minimal, and the government would have little to distribute, meaning that most people would have tiny incomes and own little.
3. Answers will vary but may include ants and bees. These insects use their homes as capital goods in that they contain workshops, storerooms, and combs in which these busy creatures work to produce and save consumer goods, the foods they save for their future needs.
4. Answers will vary. Anyone can benefit by understanding how best to manage his income, saving, and spending.
5. Professional economists and political leaders may need to know more about economics than does the average man or woman, but nevertheless, everyone has the responsibility to be informed of what is going on around him. Unless a person has some economic knowledge, he is unlikely to make sound financial choices, and in a democratic society, the government's economic policies are shaped largely by public elections and opinions.

Chapter 2 Review (p. 27)

Define

1. **laws of economics**—the general rules or principles guiding the production, distribution, and consumption of goods
2. **mercantilism**—an economic system that advocates the building up of the state's treasury with the goal of accumulating as much bullion (gold and silver) as possible
3. **trade balance**—the difference in value of the goods that a country sells abroad compared to those it purchases from other countries
4. **tariffs**—taxes that governments apply only to imported goods
5. **imperialism**—the establishment of colonies and extensive territories created to benefit their mother countries
6. **physiocrats**—French economists who favored a "natural" or "laissez-faire" economy
7. **laissez-faire**—a French phrase meaning "let things alone"; used to describe an economic system in which a nation's economy is not stifled by governmental regulations
8. **classical economics**—the theories developed by economists of the 19th and early 20th centuries stating that the free market system facilitates the best possible balance between supply and demand
9. **division of labor**—the separation of work into individualized tasks
10. **specialization**—the production of goods by people working at the jobs they do best

Identify

1. physiocrats
2. *Physiocracy*
3. Adam Smith
4. *The Wealth of Nations*
5. produce more goods from existing resources; increase the amount of resources available for the production of goods; find new resources to satisfy existing wants; make goods already being produced more effective in satisfying wants; reduce people's wants; redistribute among the population the goods that are being produced already
6. diligent work directed by ingenious intelligence allowed to develop under conditions of freedom

Explain

1. Human wants are unlimited while goods are limited. People cannot satisfy all of their wants.
2. Tariffs place such high taxes on goods that people are often discouraged from bringing in foreign products.

3. They believed that governmental regulations stifle a nation's economy and that free economic competition lowers prices and prevents excessive profits. They advocated that what is best for the individual is best for society.
4. They thought that only land provided a clear surplus of wealth and that manufacturing merely changed the form of that wealth.
5. He was referring to the shared interests of producers and consumers that result in mutually beneficial choices that are the best for individuals and society.
6. All the wealth of a nation has to be produced by intelligent labor.
7. Prosperity is the condition of enjoying many goods and services, while wealth is the value of all the things that are owned.
8. When resources are used more efficiently, more items of value are able to be produced.
9. Unused resources can be used in other areas to increase wealth.
10. Goods can only be produced through some amount of labor. America's strong work ethic has led its citizens to develop the technology and methods needed for efficient production of goods.

Concepts to Consider

1. Answers will vary but may include the following ideas: the prosperity and wealth of that society may decline; unused resources may become wasted; wants may not be met; the people may become lazy and unproductive.
2. No. Few nations would be able to increase their stockpiles after a certain point because there is a very limited amount of gold and silver in the world. Not all nations can have a favorable balance of trade; it is obviously impossible for each nation to send out more goods than it takes in—some nations must import more than they export.
3. Answers will vary but may include division of labor, specialization, private property ownership, individual efficiency, etc.
4. By forcibly redistributing resources, the government can destroy the incentive for people to work hard. With everyone at the same income level, no one would be rich enough to start new businesses or pay for the research and development of new technology.

Chapter 3 The Factors of Production pp. 28–48

Consider 3.1 (p. 29)

1. In free market economies, business owners and supervisors rely on information to help them make intelligent production and distribution choices. Information is much less important in traditional economies, where people have fewer choices to make since their actions are based on tradition.
2. Entrepreneurship is lost in these economic systems. In traditional economies, people are held back from becoming entrepreneurs by the weight of customs and habits. Under command economic systems, the resources necessary for entrepreneurship are controlled by the governments.

Consider 3.2 (p. 31)

1. Petroleum, natural gas, and coal are some of the main sources of energy used by modern industry. Other fuel sources, such as wood, are much more limited and sources like wind and water have not as yet proved to be as practical and economical.
2. Answers will vary greatly. A few examples are Venezuela, Libya, Indonesia, the countries of the Arabian Peninsula, which are known for their petroleum and natural gas, and South Africa, known for its gold and diamonds.

Consider 3.3 (p. 33)

1. Students may include anyone in the bread-making process: farmers, millers, truck drivers, bakery workers, and many others.

2. Most people throughout history have had misconceptions about the way economies work. In ancient times, many slaves were prisoners of war and were a sign of wealth and power. Serfdom developed in medieval times when land was owned by a select few. North and South American planters began importing slaves because the number of people available and willing to work on the tobacco and cotton plantations was small. Totalitarian states claim that the free market is unfair to the average laborer. In actuality, dictators maintain firm control over their people to avoid being overthrown.
3. Many people avoid labor simply because they are lazy. Others believe that no matter how hard they work, they will never be better off economically. Some do not work because they find ways to benefit from the work of others. Working can be somewhat habitual and, when the habit is interrupted, people sometimes never get back into a regular routine of work. The existence of welfare in today's society has allowed many people to avoid developing the habit of working.

Consider 3.4 (pp. 37–38)

1. Capital goods are those used to produce other goods; most houses are used for residence only and are therefore not capital. Those houses that are employed for productive purposes do count as capital goods.
2. Most, if not all, self-employed people own capital goods. Carpenters, masons, and plumbers own all kinds of tools, and they may also own workshops, offices, commercial vehicles, major equipment, etc.
3. Answers will vary. A proprietor will need offices, a repair shop and tools, gasoline storage receptacles and pumps, a large, paved surface area, a cash register, and countless other items. To obtain all this capital, he might turn to financial support from friends and family members. He might also apply for a loan from a commercial bank or a building-and-loan association, or he might possibly arrange some type of cash advance from a big oil company.
4. Yes, he certainly is. A capitalist does not have to be a manufacturer, banker, or merchant. Anyone who owns capital goods is a capitalist, and Mr. Grundy owns a lot of them.
5. No, she is not. Although she may control a lot of capital at her job, it does not belong to her.
6. Under private capitalism, there are many private employers and a large, open market of jobs, goods, and services; men and women are free to choose where they will work and how they will spend their money. When the political state is virtually the only employer, people normally do not have much choice concerning their employment, and their other economic choices are equally limited.
7. The prepared foods, clothing, hammock, bedding, tobacco, and pipe were consumer goods. The pens, ink, paper, and books, which could have been capital under other circumstances, were also used by Crusoe as consumer goods. Nearly all the other goods taken from the wreck were used to produce other goods, causing them to be considered capital.
8. Money is useful only when it will serve to buy goods. Because there was nobody to buy goods from or sell them to, the coins Crusoe found were worthless to him. The human tendency is to become addicted to anything associated with money; this is why Crusoe called the coins a drug.
9. Governments ordinarily obtain most of their revenues from taxes; however, people in subsistence economies do not have much, and the government cannot raise much revenue. A government may be able to borrow money from abroad, but it must eventually pay that money back or it will cease to have credit with international bankers and other governments. Therefore, governments in subsistence economies are financially incapable of providing for the poor.
10. The amount of credit a person is given is based upon his perceived ability to pay that money back. Most poor people are considered to be bad risks; therefore, credit card companies avoid issuing cards to these who have little.

11. People lend money because they expect compensation for the risk they take as lenders. Lack of rewards would deprive people of the incentive to lend money, eventually drying up the supply of capital. The same would occur with high taxes on dividends and interest. When discouraged from natural investment channels, business owners might use the government as their source of borrowing.
12. If it were not for Abraham Mankewitz and investors like him, there would be no camera factory to employ the complaining young employees, for capital is necessary to develop and maintain any business. Without the promise of dividends or interest, investors would not be attracted to this camera business. Mr. Mankewitz risked $10,000 in an investment that might have failed, while the young employees did not invest any money in the factory.

Consider 3.5 (pp. 41–42)

1. Although each entrepreneur has a unique personality, the majority can be characterized by (b) their bold, risky approaches and (d) their abundant imagination.
2. The communications industry, has been blossoming in recent years. Many young people who have invested in the fields of computer, satellite, and telephone technology have become overwhelmingly successful. The importance of railroads has been declining since WWII, and the field is not usually considered a promising one for young entrepreneurs. The automobile industry, which is dominated by a few domestic firms and foreign corporations, is hard to get into since it requires a tremendous amount of capital to be competitive.
3. The United States was at war against Britain, and the federal and state governments required tremendous amounts of gunpowder.
4. Du Pont came from a family of the upper middle class and was taught chemistry and the management of France's royal gunpowder factory. He and his father were deeply involved in politics, philosophy, and economic theories. Such a young man had more experience, scientific learning, and knowledge of economics than did many young Americans at that time.

Consider 3.6 (p. 47)

1. The protection of intellectual property rights does contribute to the national prosperity. When people are confident that they can reap the benefits of their work and that it will not be pirated by some unethical person or organization, they have more reason to produce goods that contribute to the comfort and prosperity of the entire nation.
2. Answers will vary. Most students will probably feel that a person does not truly own property if he cannot use it as he sees fit. Therefore, the incentive to acquire property would be diminished.
3. (Note: Students may need to be guided to find the answer to this question.) The value of money is defined by how much it can buy. Therefore, the value of money will always equal the value of goods available. The amount of money in our model equals the value of the factors of production that are provided by households plus the value of the finished goods and services that businesses produce.

Chapter 3 Review (p. 48)

Define

1. **mixed economy**—a system which combines free enterprise with state regulation
2. **labor**—any work that contributes to the production of goods and services
3. **subsistence economy**—an economic system that provides barely enough to keep a society alive
4. **private capitalism**—an economic system in which the nation's capital is owned and controlled by private individuals and businesses
5. **state capitalism**—an economic system in which the owner of much of the nation's capital is a powerful, centralized apparatus called the collectivist state
6. **capitalist**—one who owns producer goods or owns a share of some business that produces goods
7. **entrepreneur**—a person who undertakes the management and financial risk of an economic enterprise

Identify

1. natural resources, labor, capital, entrepreneurship
2. traditional, command (planned or directed), free enterprise (private capitalism or the market economy)
3. command economy
4. E. I. du Pont
5. property rights, freedom of enterprise and competition in a market environment, limited government
6. real, financial, intellectual
7. resource market, product market
8. private households, private businesses

Explain

1. Information plays an important role in the ways in which people choose to combine the traditional four factors of production. If these resources are not combined properly, the prosperity of producers plummets, usually causing the society to become poorer and in danger of being extinguished.
2. When these production factors are combined efficiently in the presence of a free market, an economic system prospers, bringing wealth to the society's citizens. On the other hand, under command and traditional economic systems, people are not allowed to use available resources intelligently, and the result is usually poverty.
3. No. If a country does not have adequate labor, capital, and entrepreneurship, the nation's natural resources may be squandered.
4. No. Mental labor contributes to the production of goods and services just as physical labor does. Intelligent work is essential for efficient production.
5. Yes. Because skilled laborers are trained, they can usually provide workmanship and productivity that are much greater than that provided by unskilled workers.
6. Money placed in these forms of savings is used by businesses to buy the capital needed to produce goods.
7. In the *private capitalism* of the United States, private individuals and businesses own the nation's capital; in the *state capitalism* of China, the collectivist state owns much of the nation's resources.
8. Entrepreneurs, knowing that they are responsible for all aspects of their ventures, must take high risks and be clever, imaginative, and practical to meet the demands of the market.
9. People tend to work much harder and wiser when they know their work will directly benefit themselves and their families. They have the incentive to invest, save, build, create, and take entrepreneurial risks. As people work for their own self-interests, they are guided into a competitive market that will satisfy the need of producers and consumers alike.

Concepts to Consider

1. Answers will vary. The United States has been blessed with a wide variety of natural resources that have given the country an edge over places that must import most of the resources they need. Our nation's resources provide jobs for many people, who labor to take the raw materials and turn them into the goods that consumers demand. Some of the nation's reserves are turned into capital, the tools needed to efficiently turn out more goods. Entrepreneurs have taken the nation's abundant supply of resources and turned them into profitable business ventures.
2. Free people have great incentive to work because they know that their labor can provide for themselves and their families.
3. Governments control all factors of production, and decide what resources will be used and how. This does not allow would-be entrepreneurs to risk time, capital, and money on the research and development of new technologies that might improve the lives of countless people.
4. Households have direct or indirect original control of all production factors because it is the individuals in those households who own all the businesses and supply those businesses with needed resources.

Consider 4.1 (p. 52)

1. The merchant would have certainly demanded more for his molasses if he had held temporary monopoly of the commodity. Molasses was important in the New England diet at that time, and people would abstain from satisfying other wants to obtain this good. When a popular good becomes scarce, its price always goes up because there is not enough to go around if it were sold at the old price.
2. The farmer would have had the better bargain because his goods would have brought only 15 shillings in the open market, whereas the merchant's would have been worth 20 shillings. Therefore, the farmer would have acquired goods worth 20 shillings in exchange for goods worth 15 shillings.
3. The price of lumber would have gone up dramatically because much of the timber supply would have been destroyed. Timber would have had to be hauled or shipped in from far away, and the scarcity of wood combined with the high cost of importing would have raised prices.
4. Although it is easy to sympathize with the artist about the time he spent, the price of works of art are normally set by the value placed upon them by those who buy art. To accommodate for this, an artist must often re-price a piece of his work. An economist would say that a painting is worth merely what a buyer is willing to pay for it; if someone will pay $20,000 for a picture, then it is worth that sum to him. If nobody will buy it at any price, the painting is worthless in an economic sense.

Consider 4.2 (p. 54)

1. Other things being equal, Miss Topinka would be more likely to work an additional 15 hours. Since Mrs. Harrison makes twice as much money as Miss Topinka, the amount of satisfaction that Mrs. Harrison would receive from each additional dollar would be less than it would for the other woman.
2. The farmer might well have declined because he probably would not have a pressing need for more molasses since one barrel would have lasted a single family for a long time. While the first barrel was worth quite a lot to the farmer, the second barrel would be much less valuable to him. He might have been willing to trade a few boards for a second barrel, but the more molasses he got, the fewer boards he would have been willing to exchange.

Consider 4.3 (p. 58)

1. The family would buy more of the cheaper foods, such as beans and chicken, and buy less of the more expensive foods, such as beef. A family accustomed to dining at fancy restaurants might begin eating at fast food places or at home more often.
2. When the demand for steak diminished, its price would probably fall because producers would find it necessary to attract more customers.
3. If the price of shrimp increased sharply, the demand would decrease because people do not have to buy shrimp, and there are many other foods they could substitute.
4. Consumers' demand for gasoline is normally directly related to the good's price. When the price of gas is high, more people carpool, use public transportation, and take vacations closer to home. If gasoline is priced relatively cheaply, people will drive more.
5. Answers will vary.
6. Most people would rather buy a normal house than a used trailer house if they could choose. Trailer homes are *inferior* goods because the demand for this product decreases when people have more money.

Consider 4.4 (p. 62)

1. Answers will vary.
2. Encouraged by an increase in the amount they could charge, pillow manufacturers would seek to increase their production. If the increase in prices seemed likely to continue, some new manufacturers might enter the market. However, the public does not have to continue buying high-priced, quality pillows; demand for such articles is flexible since there are cheaper substitutes. Demand

could therefore fall, leaving too many quality pillow suppliers and too few consumers.
3. Few people would work if they were paid only $2 an hour because they would know that they could make more working elsewhere. Many more people would be willing if they were paid $12. The more that fast food restaurants were willing to pay, the greater would be the number of people willing to supply labor.
4. Mr. Mendoza would have to decrease his prices significantly if he wanted to retain his customers and compete with the other store.

Consider 4.5 (p. 66)

1. Answers will vary. Students may think of works of art, songs or literature created by famous artists, musicians, and authors. The actual cost of mining, cutting, and polishing precious gems may be only a fraction of the prices for which the jewels are sold.
2. If doctors became more plentiful, they would have to lower the fees they charge patients in order to be competitive. If people realized that it were no longer economically desirable to be a doctor, few people would enter the medical profession and the number of doctors would decrease. With fewer doctors in the market, physicians could increase the prices they charge since competition would be lower and patients would have fewer choices of doctors.
3. Because of the high unemployment and low incomes, people had less money to spend, causing people to demand fewer goods. With the decrease, suppliers had to reduce the prices they charged in order to sell their goods.
4. There would be a shortage of bicycles because Mr. Mendoza would be willing to sell his goods for less than the price that would equalize quantity supplied and quantity demanded.
5. Mrs. Wallace would have to lower the price of her Fair Isle sweaters in order to induce consumers to buy more.

Consider 4.6 (p. 70)

1. Being forced to sell her apples at a price that was below her cost of production, Dame Grizel cut down her trees, resulting in the end of apple production. It is not possible to continue to obtain goods at low prices by forbidding producers to charge enough for them to make profits.
2. Answers will vary.
3. Government price controls result in overproduction or underproduction of goods; when prices are set too high, suppliers produce more than the market is able to bear, and when prices are fixed too low, suppliers are not willing to produce enough to satisfy the quantity demanded. In a free market, private individuals make choices that determine a good's selling price.
4. Mrs. Meier would look for ways to cut her own costs and pass them on to her boarders. She might limit electricity and water use, or students would pay for the utilities themselves. Mrs. Meier might decide to stop renting altogether or reduce the number of students she is willing to board.

Chapter 4 Review (p. 71)

Define

1. **market price**—the price at which a good could be sold in an open market that has many potential sellers and buyers
2. **marginal utility**—the amount of satisfaction that results from a one-unit increase of a good
3. **total utility**—the total amount of satisfaction received from possessing a particular amount of a good
4. **law of demand**—the principle stating that as the price of a good increases and other things remain equal, the quantity demanded decreases in a free market economy
5. **law of supply**—the principle stating that as the price of a good increases and other things remain equal, the quantity supplied also increases in a free market economy
6. **demand schedule, supply schedule**—a list of numbers that compares price with the quantity demanded; a list of numbers that compares price with quantity supplied
7. **demand curve, supply curve**—a graphic representation of the amount of goods purchased at different prices; a graphic representation of the quantity of goods supplied at different prices
8. **normal good**—a good whose demand is directly related to consumers' incomes

9. **inferior good**—a good whose demand decreases as consumers' incomes increase, and vice versa
10. **substitute good**—a good capable of being used in place of another good
11. **complementary good**—a good often used in conjunction with another
12. **subsidies**—monetary government aid given to businesses to encourage production
13. **equilibrium**—the point at which quantity demanded and quantity supplied are equal
14. **shortage**—the situation in which the quantity demanded exceeds the quantity supplied at a given price
15. **surplus**—the situation in which the quantity supplied of a good is greater than the quantity demanded at a given price
16. **price ceiling**—a regulated limit on how high a producer may charge for his product
17. **price floor**—price levels set above the equilibrium prices

Identify

1. value in use refers to the direct benefit received by the owner of a good; value in exchange refers to what a particular good is worth in exchange for some other good
2. price
3. income effect; substitution effect
4. tastes and preferences; income; population; prices of related goods; consumer expectations
5. technology; resource prices; prices of related goods; number of sellers; producer expectations; government taxes, subsidies, and regulations

Explain

1. The worth of a good varies according to personal preferences, needs, circumstances, and the quantity of the good that is already possessed.
2. Diminishing marginal utility. Since a person can eat only a limited amount, each additional slice of pizza gives less satisfaction than the slice before.
3. Those people who valued soft drinks above their new cost would continue to buy them, while those who did not value soft drinks at their new price would stop.
4. *Demand* refers to the relationship between a good's price and the amount that people are willing to buy, while *quantity demanded* refers to the specific quantity of a good that is bought at a given price per unit; a *change in supply* is caused by variations in factors other than price, while a *change in the quantity supplied* is caused only by a price change.
5. A supply curve slopes upward and to the right to illustrate the direct relationship between price and quantity supplied. A supply curve shifts right to indicate a supply increase.
6. The cost of producing goods falls dramatically as technology becomes more efficient, thereby allowing producers to lower the prices they charge for goods.
7. A bushel of wheat would increase in price because there would be a greater demand for it.
8. The quantity demanded increases because people want to consume more of that good since its price has dropped.
9. When a business is subsidized, it is paid for producing goods regardless of whether there is sufficient consumer demand for those goods.

Concepts to Consider

1. Answers will vary. Some factors that might influence students' decisions would be personal tastes and preferences, incomes, the prices of similar outfits from other stores, and the number of clothes already owned.
2. Forced attempts by the government to control prices hinder the working of the market. When the government controls prices, they are no longer reliable signals that producers and consumers can use to effectively gauge supply and demand. The result of price-fixing by government is usually either overproduction or underproduction of goods.
3. It is inelastic because there are no effective substitutes available and he places a higher value on the treatment than he does on the additional money it now costs.
4. Answers will vary. A new tax would force manufacturers in the automotive industry to raise their prices in order to remain in business. A family might postpone buying a car, do more carpooling, start walking more, or look into buying a used car.

Chapter 5 The Productive Market Economy pp. 72–87

Consider 5.1 (p. 75)

1. Mr. Courtemanche is sending the management of Warm Winter Contractors the market signal that the price of insulating is too high. If the insulation industry learns that many potential customers are deciding not to insulate their houses because of high prices, businesses may seek to reduce their costs to be able to offer lower prices.
2. Miss Swenson is sending the owner of the bookshop the signal to carry other types of books. If Miss Swenson is the only person who has complained about the selection of books, the store owner will probably be reluctant to make major changes.
3. The clerk is remarkably unresponsive to demand. Many consumers will be driven away by the clerk's attitude as long as he is running the store.

Consider 5.2 (p. 78)

1. People forbidden to sell goods and services would be prohibited from engaging in trade, and they would be reduced to starving, living with friends, begging, or stealing. Students should be able to think of various peoples who have been in this situation, such as the Jews under Hitler. The Bible tells us that this scenario will also occur during the Tribulation, when those who refuse to show submission to the Antichrist by taking the mark of the Beast will not be permitted to buy or sell (Rev. 13:16–18).
2. Such systems require extensive direction by political powers, which is contrary to the established ways and preferences of free societies and democratic nations. The rationing and centralized distribution of goods leaves consumers little freedom of choice and causes them great inconvenience. The free market is necessary if people wish for supply and demand to gain equilibrium.
3. The manager means that he is experimenting to see how high a price he can charge. He has to charge buyers prices that will allow him to make profits sufficient to keep his shop open. As long as he thinks he can find someone willing to pay $70 for the desk, he will not be likely to let it go for less. If it has been for sale for several months and no one has shown interest in it at this price, he may be willing to accept less money.
4. The group would probably have a hard time finding enough eggs, since the people produce chiefly for their own individual consumption. You would have to offer the Kenyans a high price to induce them to part with their food. If travelers were to stop often enough to try to buy goods from this particular village, the local producers would become aware that they could substantially increase their own prosperity by exchanging their local goods for other goods or monetary payment.
5. Consumer wishes have little impact on supply because suppliers are not free to respond to those desires. Instead, the central government decides what and how much of a good will be produced.
6. An individual is free to shift his trade to other stores that offer lower prices and higher quality, or he might decide to shop for bargains through catalogs, television, or the Internet. People in countries with command economies usually have little choice concerning where to buy things, and they are rarely able to peacefully change governments' economic policies. Often, consumers can make their voices heard by beginning widespread revolts against their government.

Consider 5.3 (p. 86)

1. Banks guarantee that depositors can get at their money plus their earned interest whenever they want it. Nobody guarantees that a person who invests money in a business enterprise will get his money back; an investor may lose everything he placed in a business if the enterprise fails.
2. If an uninsured factory worth $10 million burned to the ground, its owners would face a loss of $10 million, and it is likely that they would not have sufficient assets in the business's savings account to rebuild.

If the factory had been insured, however, the owners would receive the money they needed to rebuild their business. For this guarantee of reimbursement, the firm would have paid a sum over the years that would probably be far less than the cost of the factory.

3. Middlemen are distributors, and distribution is one of the three essential elements of an economy. If there were no middlemen, consumers would have to go directly to production sources for their goods. Consumers would find that goods were much more expensive to obtain if they had to pick everything up themselves, for middlemen are able to transport and distribute goods in massive quantities.
4. While it is true that one clerk's wages would more than make up for Mrs. Molnar's small annual loss, she would lose many sales if she were to discharge an employee. There would be fewer people to wait on customers and keep the shop's inventory in good order.
5. An individual may receive satisfaction from running his own business that is not purely financial. He can make his own decisions, set his own hours to work, have the chance to make and keep large profits, and know that he cannot be discharged during recessions or for making mistakes.
6. Through his energy and talents, Spanos accomplished a great feat that no one else had been able to achieve. He succeeded in supplying a food high in protein to millions of people who otherwise would have been ill-fed. Great achievements deserve great rewards. Spanos did not gain his wealth by taking it away from other people: he created the wealth for himself and many others.
7. Without the protection of patents, Spanos would have had to stand by helplessly while other people duplicated his techniques at Spanos's expense. Governments can help private enterprises by protecting them from robbers and thieves, maintaining public communications and transportation, and preventing piracy.
8. Many would-be competitors, eager to share the profits, will want to begin harvesting and selling plankton once Spanos's patent runs out. In order to stay in business, Spanos's company will have to adjust the prices it charges to compete with these fledgling companies.

Chapter 5 Review (p. 87)

Define

1. **market signals**—signs used by consumers and producers to determine how much of a good to buy or sell at a given price and time
2. **nondurable good, durable good**—a good that has a life expectancy of less than three years; a good that is expected to last at least three years
3. **black market**—an illegal, underground system for the exchange of goods, developed to avoid governmental regulations
4. **private sector**—that part of an economy controlled by private individuals, businesses, and organizations
5. **public sector**—that part of an economy controlled by national, state, and local governments
6. **profit motive**—the desire to work to improve one's economic situation
7. **depreciation**—the diminishing value of goods that is caused by wear and time
8. **profit**—the excess of the total revenue paid by buyers for goods over the seller's total expense of producing those goods
9. **opportunity costs**—the value of the best alternative that is foregone when a different alternative is taken

Identify

1. market
2. traditional economy
3. command economy
4. free market economy
5. equity

Explain

1. Consumers in free enterprise economies communicate their preferences through their buying decisions. By their choices not to purchase items, consumers send producers signals that they do not like specific

products or that the prices are too high; by their decisions to buy certain goods, they let producers know that they like the goods and their prices.

2. Through his decision to buy a certain product, a consumer communicates to the manufacturer that he approves of that particular good at that particular price.
3. A governmental authority makes nearly all of the important economic decisions in a country with a command economy, while private consumers make most of the economic choices in a place with a free market economy. This is an important distinction, for power lies with those who decide what goods to produce in what quantity, how to distribute goods, and who gets to consume goods.
4. When people are free to try to improve their economic situation, they have the incentive to labor, save, and invest in the most profitable ventures they can find. Without the profit motive, people are usually not as willing to work; therefore, work is done much less efficiently, making it impossible for these economies to prosper.
5. To an accountant, a business's profit equals its revenue minus the amount of money spent and the cost of depreciation. To an economist, a business's total profit equals its revenue minus its total cost, which includes depreciation and opportunity costs.
6. In a competitive free enterprise system, a business that makes a large profit is rather rare for two reasons. When the laws of supply and demand are allowed to work without interference from the government or some other entity, a business cannot raise the prices it charges for its products significantly above that which its competitors are charging. Also, most businesses also have many expenses in addition to what they pay for their production factors.
7. A business that does not make a true profit can stay in business if the owners themselves are working. The firm may also continue through the owner's resources and savings.
8. One expense that some small-business owners fail to take into account is the wage of management. Some owners confuse this money with profit. In reality, such owners have not made profits; they simply have paid into their own hands the wages of management they would have to pay if other people were managing their businesses for them.

Concepts to Consider

1. Answers will vary. Everyone should have a thorough comprehension of the different types of economic systems in order to understand why traditional and command systems are economically and morally inferior to the free market. Those people who are knowledgeable about economics should realize the importance of keeping a free market economy strong, and they should also be aware of how to keep it healthy.
2. A country with a command economy does not have strong market signals because a central authority makes the economic decisions with little regard for consumer preferences. Producers have to strive to meet the demands that the government makes, and consumers have few products from which to choose.
3. Answers will vary. Traditional economies produce only enough to satisfy their immediate needs; consequently, they do not have the reserves of food and other goods that countries such as the United States normally stockpile.
4. Many business owners enjoy the satisfaction of owning their own businesses, being their own bosses, choosing their own hours, deciding which jobs to take, providing needed goods and services, carrying on family traditions, etc.

Chapter 6 The Good That Competition Does pp. 88–103

Consider 6.1 (p. 90)

1. Answers will vary. Many students will mention sports, grades, or jobs. Some may suggest advantages and disadvantages of specific types of competition.
2. In a diversified market economy, Felicia is able to obtain the employment in which she is efficient. The competitive market did not allow her to remain a typist since she was poor at that job, and it forced her to look for work in which she could be a useful and productive member of society. If Felicia had lived in a country where all workers were rewarded whether or not they were competent, she would probably have remained a typist since all workers are rewarded equally regardless of their skills.
3. To be emulous means to be eager to equal or surpass something or someone else. Hesiod's phrase means that an individual has the natural inclination to endeavor to do as well as his neighbors or rivals.
4. Answers will vary. Some examples may be cheating in sports and other areas, copying somebody else's work without permission, slandering competitors, and falsely representing the quality of goods offered.
5. Babbitt was referring to the fact that people need a challenge to rouse them out of their natural apathy. Competition keeps life exciting by encouraging quality and efficiency and discouraging indifference and laziness.

Consider 6.2 (p. 92)

1. Answers will vary.
2. Other farmers would try to sell their grain for more money, forcing the other buyers to raise their prices to the same level. A grain buyer consistently offering more money would realize that he was making little or no profit when he sold the grain to a third party. The buyer would eventually have to lower the prices he offered or declare bankruptcy.
3. Farmers often keep back part of their crops, storing them in personal or commercial grain elevators, until prices go up or until they need the money and are forced into selling. Storing grain is not free; buying and maintaining elevators costs money, as does renting space in the storage facilities of other people.
4. Students may suggest industries that are highly competitive; the grain market is the best example of perfect competition.

Consider 6.3 (p. 94)

1. Answers will vary. If a monopoly's prices rise too high, people may be motivated to start competing businesses; in other cases, there is little that people can do other than pay up, go without, find a substitute, or move.
2. The federal government has an exclusive monopoly in waging warfare, conducting international diplomacy, collecting taxes, regulating imports and exports, carrying first-class mail, coining money, admitting immigrants, and many other activities.
3. Governments issue protection rights to inventors, authors, musicians, writers, and other creators of goods and services. Those who copy the protected work of others can be severely punished. This guarantee allows the creators of goods to establish monopolies, and make decent profits from their labor. Without this protection, there would be little incentive for people to invent or create.

Consider 6.4 (p. 97)

1. A potential bedspread buyer could visit department stores, shopping malls, and other types of commercial businesses. A person could select a bedspread from the convenience of his own home by ordering from catalogs, newspaper and magazine advertisements, home-shopping television networks, and the Internet. These options force businesses to keep the prices of their goods in line with the prices charged by their competitors.
2. The executives at Cosmopolitan Multifabrics realize that there is comparatively little capital invested in Thistle River Industries. They know that what makes Thistle River a

thriving business is Carl Totter's ingenuity as a fabric designer, his skill as a merchandiser, and his vigorous personality. While the first offer shows that Cosmopolitan is interested in buying out its competitor, the second, much higher offer proves that what it is really after is Carl Totter's services.

3. Many consumers would choose to save money by buying their bedspreads from Spread Shed. Thistle River's sales would drop dramatically, forcing the company to lower its prices in order to attract customers. This competition between the two companies would prove beneficial to consumers, who could profit from the lower prices.
4. This new regulation would not be beneficial to the people of New York state because it would discourage true competition among producers and destroy the incentive for producers to find ways to lower the prices they charge consumers. A free market economy drives inefficient producers out of business because consumers will not buy goods that are expensive and of low quality when there are other choices available. Minimum-price regulations discriminate against efficient producers in favor of those who are less efficient.
5. Even when there were more grocery stores per capita, the United States never had perfect competition in food distribution. Grocery stores do not offer truly standardized products—stores carry different brands of varying quality and their food selection varies widely. Firms do not have totally free access to the market, and relevant market information is often difficult to obtain.

Consider 6.5 (p. 99)

1. This would place the industry under an oligopoly. Competition would be so greatly reduced that these three companies could hike up the prices they charged for bedspreads and reduce the quality and variety of their goods. This scenario would be highly unlikely for there are many bedspread companies, and many regulations prohibit certain monopolistic and oligopolistic practices. Entrepreneurs would also enter the market, desiring the potential profit from selling goods at lower prices.
2. Due to inflation, practically everything is many times more expensive now than it was in the 1920s. The auto industry's cost of labor, capital, and raw materials is many times what it used to be. (Student may need guidance during this discussion since inflation has not yet been thoroughly discussed.)
3. Answers will vary.

Consider 6.6 (p. 102)

1. The price you would be paid for your coffee would drop significantly. When there is only one possible purchaser of any product, he can pay as little as he likes as long as the price is just high enough to persuade producers to keep working. Dictators often find it advantageous to take total control of markets, because they can buy domestic products cheap and sell them for much higher prices to international buyers.
2. A monopolistic increase in the price of sugar would attract new sugar dealers into the business. These new businesses would offer their sugar to consumers at far lower prices. The monopoly would collapse since it would not be able to find anyone willing to pay $20 per pound for sugar. People may start using more beet sugar, honey, and other sweetening agents.
3. The monopoly would have to obtain agreements from all the sugar producers around the world that they would not sell their product to any other sugar supplier in the United States. A monopoly could also seek to legally block competitors from entering the industry.

Chapter 6 Review (p. 103)

Define

1. **industry**—a group of firms that produce similar products or provide similar services
2. **perfect competition**—a market in which there are many sellers and buyers, all firms produce a standardized product, firms have free access to the market, and relevant market information is available to all sellers and buyers
3. **price taker**—a firm that has no real control over the price it receives for its products

4. **monopoly**—a market in which there is only one supplier of a good, no other firms produce a close substitute for that good, and entry into the market is blocked
5. **monopolistic competition**—a market in which there is a large number of firms that provide differentiated products and have easy access to the market
6. **oligopoly**—a market in which there are only a few firms, products are differentiated or virtually the same, and potential competitors are discouraged from entering the market by significant entry barriers
7. **trust**—a collusion of businesses which join together to restrict or eliminate competition
8. **price discrimination**—the practice of selling the same type of goods at different prices to different buyers

Identify

1. better goods at lower prices for everybody; better standard of living for everyone
2. large number of independent sellers, large number of independent buyers, all firms produce a standardized product, firms have free access to the market, relevant market information is available to all sellers and buyers
3. only one supplier of a good or service, no close substitutes for that good, blocked entry to the market
4. large number of firms in market, differentiated products, easy access to the market
5. few firms in market, products that are differentiated or virtually the same, significant entry barriers to the market
6. collusion
7. the operation of the free market
8. Sherman Act, Clayton Act
9. Federal Trade Commission (FTC)
10. when a business compromises national security; when a business threatens the safety or health of consumers through fraud or deceit; when a company or group of companies conspires to hinder free competition in the marketplace; when a national emergency disrupts the normal market cycle; when a labor organization breaks the law or uses intimidation tactics against workers; when the public safety or national security is endangered by labor strikes or unrest; when the purchasing of private property is necessary for the public good or safety; when an industry is under a natural monopoly

Explain

1. Producers constantly search for ways to distinguish their products from similar products that other producers are selling. They must also keep their prices low by looking for ways to lower production and distribution costs.
2. Competition offers better goods at lower prices for everyone involved in a market. A better standard of living is made possible for everyone, even those who do not succeed quite as well as others.
3. Since a firm in a perfectly competitive market cannot sell its goods if it tries to charge more for its product than other sellers do, the only way it can increase its profit is to increase the volume it sells or find some way to lower costs.
4. No. Governments often grant legal monopolies in order to encourage creativity. In some natural monopoly situations, consumers can be provided with needed goods more efficiently since there is only one firm making that good available.
5. A legal monopoly is usually granted by governments. A natural monopoly occurs when a single firm can fill the demand for a good more efficiently than if there were multiple firms in an industry.
6. Because firms provide differentiated products, consumers base their purchasing decisions not only on price, but also on quality and appeal.
7. In monopolistic competition, the market is one in which there are many firms that are able to easily enter or exit the market. In oligopolistic competition, the market is dominated by only a few firms, and potential firms are discouraged by the existence of significant entry barriers.
8. Americans tend to be naturally suspicious because they have traditionally advocated the free market, preferring industries that are highly competitive. These concerns are not always justifiable, for in some cases a monopoly or an oligopoly may provide better goods at cheaper prices than would be provided if there were tough competition within the industry.

9. When a producer makes tying contracts, he is forcing consumers to buy additional goods in order to obtain the products that they desire.

Concepts to Consider

1. The freedom to buy and sell as people see fit has been a mark of prosperous economies and societies. Competition helps everyone in the economic race, "winners" and "losers" alike, for an economy is most efficient when people are allowed to excel.
2. Free competition ultimately provides a better standard of living possible for everyone in a society. In poor societies, everyone struggles to fend for themselves. People in prosperous countries, however, have abundant wealth that they can use to aid others. Free market capitalism has encouraged the research and development of medical and technological resources needed by those with limitations.
3. A business in an oligopoly could lower its costs, produce more goods, differentiate its products, invest in more effective advertising, or increase the prices it charges consumers. Any of these methods might work, but they might also backfire. If consumers perceive that the company has reduced quality, if they do not like product change, or if they refuse to pay higher prices, the company will not sell as much, and profits are likely to decrease.
4. A government should not always interfere with markets dominated by a monopoly or small oligopoly. Sometimes a monopoly or oligopoly is able to do a better job than if there were many competing producers in the market. The government should make and enforce laws that hinder businesses from engaging in practices that jeopardize safety and health or are morally wrong.

Chapter 7 Efficiency of Production pp. 104–122

Consider 7.1 (p. 106)

1. The only ways a producer can improve his efficiency is by increasing the amount of goods he produces without increasing the amount of input he uses or by producing the same amount of finished goods while decreasing the required input.
2. Answers will vary. Students might suggest such things as the Protestant work ethic, Judeo-Christian morals, an abundance of land and natural resources, scientific and technological research, free market principles, etc.
3. The world is constantly watching and critiquing the way that Christians live, and the Bible specifically commands Christians to make good use of their time (Eph. 5:16; Col. 4:5). Students' answers regarding their personal lives will vary.

Consider 7.2 (p. 108)

1. The method of growing tomatoes on the large farm has the lowest cost per pound of tomatoes; the cost of producing the fruit this way is only 20¢ per pound compared to the 24¢ it costs in a greenhouse or the 40¢ it costs in a small garden.
2. The greenhouse is more efficient because it produces 400 times the number of pounds of tomatoes the garden does. The cost per pound of greenhouse tomatoes is around half of the garden's cost per pound.
3. Tomatoes can be produced outdoors on a farm only when it is warm, which is only a few months of the year in the northern climates; these plants can be grown year-round in a greenhouse. Greenhouse producers are compensated for their large investment because they can charge high prices for fresh tomatoes during the cold months.
4. Although tomatoes can be produced most efficiently on a farm or in a greenhouse, by the time these tomatoes are marked up for the costs of cleaning, packaging, transporting, displaying, and selling them, they may cost consumers more than ones grown in consumers' back yards. People may also grow their own tomato plants because they enjoy gardening, need the fresh air and exercise, wish to have certain varieties of tomatoes, etc.

5. The cost of building and heating orangeries in a northern climate makes them economically impractical because it is cheaper to transport oranges from the southern states.
6. In Case 1, it would clearly be $110,000 cheaper to employ 10 people because labor is more efficient than machinery in this instance. In Case 2, $30,000 would be saved by buying one machine to do the work of 10 people. The difference depends upon the kind of job needing to be done; the kinds of machines available; and the training, efficiency, and availability of human labor.
7. Where an abundance or surplus of labor exists, investors are often reluctant to put their money into labor-saving machinery since human labor can be had for comparatively little. When many people are seeking jobs, wages are usually low, and labor can be hired for less than the cost of buying machines.
8. Large salaries can be powerful incentives for people to find ways to increase efficiency. Executives know that their jobs and salaries depend on their performances. They are paid for the experience they bring to their jobs and for the responsibility and risks their jobs require.

   An unknown person's offer would not be taken seriously. The directors would realize that the salary savings of $680,000 per year would more than be eaten up by the mistakes and failures of an inexperienced, unqualified leader.

Consider 7.3 (p. 111)

1. Answers will vary.
2. Assuming that the worker worked an 8-hour work day, he would be producing 2.5 pins per hour. If he were paid $7.00 per hour, the cost of his labor per pin would be $2.80. By the time the pins were marked up to account for the cost of materials, packaging, and distribution, pins would probably cost consumers at least $3.00 each.
3. Answers will vary. Other advantages include standard and interchangeable parts, lower prices, and simpler job training. Another disadvantage would be the decline of quality and craftsmanship in some goods.
4. Although the standardization of machine parts and various other articles is usually an economic advantage, it can also result in less variety of design or materials being made available in the market.

   Boredom can result from highly specialized work if people are doing the exact same thing and following the exact same pattern day after day.

Consider 7.4 (p. 114)

1. Answers will vary. This plan might be possible but it is not very likely. It would also require Mrs. Molnar to borrow a large amount of money. Plus, since the bookstore is in a decayed part of town, she would need to relocate to attract more customers. Also with the rise of technology, it is doubtful that she could attract many more customers than she currently has.
2. Spanos's heavy investments of borrowed money made it necessary for him to make as much money as he could as soon as possible. He could not afford to spend months or years with only the small income from a single restaurant. Huge schemes like this usually require swift decisions and the willingness to take high risks.
3. Answers will vary. Among reasons for preferring the small scale may be the desire for the independence, the inclination to remain in the neighborhood or city, the desire to be close to all one's coworkers, and family tradition. Reasons for preferring the large scale may be the greater opportunity for advancement, love of adventure, and desire to travel or move about the world.
4. If the mass production of automobiles had never occurred, people would be more confined to the areas in which they were born. The middle part of the country and the Far West would be less developed since people would still be concentrated on the East Coast. People would be more confined to cities and regions that had industrial jobs.

Consider 7.5 (p. 117)

1. Wes has absolute advantage since he can both pick and sell more cherries. Norm has the comparative advantage in selling cherries since he is a better seller than picker. At

present, the brothers can pick and sell 80 quarts of cherries every day. If Wes spent his entire day picking, he would gather 100 quarts, while Norm would sell 90 quarts in a day. The brothers would be 10 quarts ahead if they divided their labor in this manner.

2. Total productivity would be noticeably less than it was when the three of them worked at the task for which each was best suited. Under the new arrangement, the efficiency of teaching would improve, but the production of chickens and furniture would fall. (Under the old system the total score was 235, while under the new one the score would be only 180.)
3. These two companies would decline in their productivity. Rather than producing 100 fans and 60 heaters, they would produce only 80 fans and 50 heaters.

Consider 7.6 (p. 121)

1. Being accustomed to the flavor of the coffee bean, millions of Americans would be discontented if they were unable to obtain their daily amount of the beverage; they would much prefer to pay more for a cup of real coffee than to switch to a substitute like chicory. This attitude is a powerful force in economic decisions: chicory growers would never be able to replace the satisfaction people receive from coffee no matter how inexpensively they could offer their substitute product.
2. Answers will vary according to current economic events. Many of the arguments for and against free trade are already mentioned in the text.
3. Answers will vary. Floridians would have to pay more for wheat and might start buying foods containing less wheat. Nebraska's wheat farmers would sell less in Florida. The state of Nebraska might retaliate by placing tariffs on goods Florida exported to Nebraska. Any of these actions and their results would ultimately be harmful to the producers and consumers of both states.

Chapter 7 Review (p. 122)

Define

1. **efficiency**—the quality of producing effectively with a minimum of waste
2. **input**—the total amount invested in the production of a good
3. **output**—the total amount of a good that is produced
4. **total cost**—the sum cost of all the factors of production used in making goods
5. **average cost**—the sum cost of all the factors of production used to produce one unit of a good
6. **geographic specialization**—the production of goods in which a country or region has an absolute or comparative advantage
7. **free trade**—the exchange of goods free from governmental restrictions or penalties
8. **tariffs**—taxes that must be paid on imported goods before they are allowed to enter an area

Identify

1. keeping input steady while increasing output, keeping output constant while reducing input
2. intelligent work
3. mass production
4. protectionism
5. David Ricardo

Explain

1. A manufacturer must be efficient if it is to produce quality goods at relatively low prices. If it does not, consumers may buy goods elsewhere, causing the manufacturer to lose business.
2. No. There have been many countries with limited resources whose peoples used their intelligence and imagination to establish businesses and industries that have made their economies prosperous.
3. The more a producer can reduce the costs of obtaining the resources needed to produce its goods, the more efficient it can be. The producer can compare the average and total costs of various production methods in order to determine which one is most efficient.
4. Yes. By increasing the wages it pays to its workers, a firm may be able to attract employees with higher skills or give existing employees the incentive to work harder. The wage raise would pay for itself if productivity were increased enough to offset the additional labor expense.

5. The production of a good can be broken down into so many specialized steps that the capital and labor needed for each task end up costing more than if there were fewer production steps. The result of overspecialization is that the producer's cost per unit is higher than necessary, and the producer risks being run out of business by competitors.
6. No. A business may grow too big or too centralized to be managed as well as a smaller organization, causing average costs to increase and profits to diminish. Some types of businesses run much better when they are purposely kept small.
7. Answers will vary. Make sure that student understands the difference between absolute advantage and comparative advantage. (See text pp. 115–117.)
8. A business that could potentially be efficient in many areas will likely focus its resources on the field in which it has the greatest efficiency and profit-making ability. Most firms branch into other areas only if they believe that doing so will result in greater productivity and profit. This may occur when sales of their existing products decrease, when products become outdated, or when it seems likely that a new branch has the potential to become extremely profitable in the future.
9. The presence of free trade helps to increase producer efficiency and to keep consumer prices low. Regions can concentrate on those goods that they can produce efficiently, knowing that they can export goods to other areas without limitations or restrictions.

Concepts to Consider

1. Answers will vary but should include ideas such as the establishment of a free market economy, freedom of choice, free trade among states, and limited governmental intervention.
2. America's free enterprise system has encouraged people to greatly increase efficiency. Over time, a decreasing amount of labor has been used to produce an increasing supply of goods, thereby giving people more time to pursue activities other than work.
3. Answers will vary.
4. Both producers and consumers profit from free competition between local and foreign manufacturers because it keeps prices down. Through buying lower-priced goods, consumers can save and invest their money, causing more jobs to be created.

Chapter 8 Why Everybody Needs to Save pp. 123–141

Consider 8.1 (p. 124)

1. Students may recognize the qualities of the grasshopper or the ant in themselves, their companions, and others they know. The dancing which the ant mentions may refer to the grasshopper's future of shivering and shaking in the winter's cold or to the fact that the grasshopper would have to stop lounging and start throwing herself into work if she is to have any chance for survival.
2. The ant knew that grasshoppers never save anything, and that although this particular grasshopper's intentions may have been good, the debt would probably never be paid. Only a foolish lender loans money to a borrower who has no means of repaying—unless the lender really means his "loan" to be a gift. People who are bad risks must expect to pay high interest rates if they can find anyone to lend to them at all.
3. People living in a hunting-and-gathering economy usually are not investing for the future and are not able to save much for lean times. In an agrarian society, people plan for the future and work to increase existing resources.

Consider 8.2 (p. 128)

1. All the people in Egypt and the surrounding lands would have promptly flocked

to the king's storehouses, which would have been quickly emptied. Thousands of Egyptians would have eventually starved and died if they had not been economically forced to conserve the grain.

2. Even if there had been a great banking system comparable to ones found in our century, it could not have advanced funds sufficient for the whole population of the country. Plus, any moneylender or banker would have been reluctant to make loans to people who stood on the brink of economic ruin.
3. Money in the form of coins was usually scarce in ancient societies like that of Egypt. Pharaoh felt he had more need of feeding his workers and maintaining storehouses for future famines than of stockpiling coins.
4. Although the desire to share good fortune with others is admirable, it limits the people's economic improvement. If families were allowed to save some money and goods through the sale of their surplus crops, they might gradually build up enough capital to acquire better tools, advance their agricultural methods, and build better lives for themselves. As the example of one tribe is followed by another, a whole region's economy might thus be improved.
5. The Communists ignored the fact that all production needs to be backed by the factor of capital. Denying that private saving could positively contribute to an economy, they exiled the very people who might have produced an adequate amount of food for the people of the region.

Consider 8.3 (p. 130)

1. Answers will vary.
2. The bank would charge the unstable government high interest rates because it would be shouldering the risk that full repayment of the loan might never be made. Because bankers deal with money that is not their own, it is their legal and moral duty to be cautious concerning to whom they decide to lend.
3. It is only fair that lenders get all their money back; people would be more reluctant to lend capital if they did not receive help in requiring debtors to live up to their obligations. If people know that they are likely to go to prison if they do not pay back their loans, they will tend to do all in their power to make adequate repayment. The problem with imprisoning debtors, however, is that it is difficult for people in jail to earn the money needed to pay their debts.

Consider 8.4 (p. 132)

1. If people hoarded their money, the exchange of goods would have to be done through bartering since there would be no money in circulation. Businesses and industries would be so starved for capital that all efficient production would soon cease.
2. The servant meant that the master benefited from the labor of others; he did not personally do all the work from which he profited. The master is an entrepreneur—he invests money in others and expects them to use it to make more money.
3. Wise people who have money and capital are able to invest them in ways that will make them multiply. People who save their money in order to invest it will likely get still more money as a result of their thrift and prudence. This saying is definitely true of the man in the text that was able to turn $10,000 into $26,000 through wise investments.

Consider 8.5 (p. 136)

1. In times of political economic instability, gold is often chosen as an investment since this precious metal has been shown to retain its value. Also, while businesses, houses, farms, and other forms of capital can be easily destroyed or seized, gold is relatively easy to hide. Gold owners have the advantage of being able to carry much of their wealth with them if they are forced to flee.
2. Checking accounts are easily accessible and much more practical for day-to-day business. Savings accounts ordinarily require a depositor to give his bank notice of several days or weeks before making substantial withdrawals, and the depositor may have to appear at the bank in person in order to take out any money.

3. Answers will vary. The only legal way to invest in these countries is through government banks and bonds. Money placed in these "investments" is often confiscated or frozen and may never be seen again if the government goes bankrupt or refuses to give back the money.

Consider 8.6 (p. 138)

1. Answers will vary. Students may need to become more familiar with the benefits of different investments that are locally available.
2. Answers will vary.
3. People buy U.S. savings bonds because they are the least risky form of investments and they are exempt from taxation.
4. Instead of a person placing all his money into one investment that could conceivably wipe out all his savings if it failed, he should diversify his investments. That way, he will still have something to fall back upon if some of his investments fail.

Consider 8.7 (p. 140)

1. It is no secret that the American Social Security system is flawed and financially unstable. The Bible makes it clear that it is not the government's responsibility to see to the financial welfare of individuals, and that those who are unable to provide for themselves should be taken care of by family members when possible (1 Tim. 5:8, 16). Answers concerning ways that young people should prepare for retirement will vary.
2. The U.S. government has found it necessary to make Social Security payments compulsory because the system does not have enough money to cover all its obligations. Therefore, the government has tried to solve the problem by forcing more people to contribute money to the bureaucratic system.
3. The Soviet government gained the money through compulsory methods. The government had ready access to the bank deposits of Soviet citizens, and it had additional income through its government-owned industries, its powers of taxation, and its sale of bonds.

Chapter 8 Review (p. 141)

Define

1. **investment**—the commitment of resources to a project or purpose that is expected to bring future profit to the investor
2. **debtor, creditor**—a person who borrows money or capital; a person who lends money or capital
3. **checking account**—an account that allows checks to be written up to the amount that the account holder has deposited
4. **check**—an account holder's written order that authorizes his bank to withdraw funds from his account
5. **money market account**—an account that allows limited transactions and pays an interest rate that changes with the demand for loans
6. **FDIC**—Federal Deposit Insurance Corporation; governmental agency that insures private banks and accounts up to $250,000
7. **premiums**—insurance payments
8. **stocks**—the resources a corporation gathers by selling ownership in the business
9. **shares**—equal portions of a corporation's stock
10. **dividend**—a share of a corporation's profit
11. **bond**—a document that guarantees the bondholder the amount of his original investment plus a specified rate of interest by a certain date
12. **liquid investments**—assets, such as stocks, bonds, and mutual funds, that can be easily converted into cash or other investments without much time or difficulty

Identify

1. private sector
2. checking account
3. savings account
4. certificate of deposit (CD)
5. defined benefit plans; defined contribution plans
6. corporation
7. time, rate of return, amount invested

Explain

1. God uses the ant as an example because of the insect's diligence in working and saving. The illustration of the ant teaches that people are to plan for the future, storing up supplies during times of plenty to be used in times of need.

2. Saving is essential to purchasing capital and paying for the research and development of new products and technologies that will benefit everyone. Without savings, there would be no way to pay for the capital goods that make production efficient, and there would be no way to give researchers and inventors the incentives and tools needed.
3. Unless people have the economic liberty to use their resources as they choose, they are dependent on the government for financial security and permission for what they may buy, where they may work, what they may produce, etc. When government controls these economic areas, the people have little political freedom.
4. Risky investments offer larger rewards than safe ones because investors are not likely to place their money in projects that might fail unless there is the possibility of great financial profit.
5. The owner of an insurance policy could be said to be saving money through his payments to an insurance company. If the policy owner dies or experiences an emergency or disaster, he can receive money from the insurance company to help take care of expenses.
6. Pension plans are beneficial because they make provisions for retirement that employees may not otherwise be able to make. These plans are administered by professional investors, and employers usually contribute significant amounts of money to their employee plans. Businesses that provide pension plans invest their contributions and employee contributions in investments that generally pay good returns; when employees are ready to retire, they are allowed to withdraw the money from their plans.
7. Common stock allows holders to vote concerning corporate matters, while holders of preferred stock are usually not permitted to vote. In prosperous years, holders of common stock may receive large dividends, but in a year when the company has not done well, dividends to common stock holders may be small or nonexistent. On the other hand, holders of preferred stock annually receive a fixed amount in cash dividends as long as the company makes enough profit.
8. Limited liability protects stockholders from personal responsibility to a corporation's creditors if the business fails or declares bankruptcy. Investors can only lose the money they have actually invested in the corporation. Without this protection, potential investors would shy away from becoming involved in a company for which they could be held financially responsible.
9. Investors often place their money in mutual funds because they like the security of feeling that their assets are spread out—even if some of their money is placed in investments that do poorly, their investments that do well often more than make up the difference. Although they usually do not yield high returns, mutual funds have the advantage of being relatively safe. Investment in stock, on the other hand, has the potential of high profit, but there is also high risk.
10. Social Security is not really a form of investment at all—the system takes required payments from workers and immediately uses the money to pay for governmental expenditures. Young people should not count on Social Security for retirement because the whole program is built upon a "pay-as-you-go" foundation that is so unstable it may collapse at any time.

Concepts to Consider

1. Answers will vary, but most excuses are not valid.
2. People would not be likely to save if they did not expect to be financially rewarded for their savings.
3. Many students find a savings account to be the most practical for them because of their limited financial resources and their need to access their savings. Depending on the situation, bonds and mutual funds can also be good investments for high schoolers.
4. A Christian needs to carefully choose how to invest because the Lord commands His followers to make good use of their time and resources here on Earth.

Chapter 9 What Money Is Good For pp. 142–162

Consider 9.1 (p. 145)

1. Answers will vary but may include such items as jewelry, gold, food, clothing, and household goods. Foreign currency is often used when a nation's money experiences instability, for people are eager to acquire any form of money that seems comparatively sound.
2. This form of money lacked portability because it was notoriously heavy.
3. Bars of salt lack durability and portability, for they diminish in size and weight if they are handled or if they get wet; the advantage of salt is that this mineral is a necessity for life and therefore has intrinsic value. Rifle cartridges are also intrinsically valuable to a person who has them, unless they do not fit his gun or have been damaged by frequent handling.
4. Bartering was awkward and time consuming. A person wishing to obtain some good would have to find someone who had that good and was willing to exchange it for something the first person had. This was often difficult or impossible.
5. Anybody who landed such a contract with the federal government would quickly become one of the richest people in the world. One twentieth, or five percent, of all dollar bills issued annually would soon add up to millions of dollars. The contract would, however, be very costly to the government, for it would be far cheaper to pay a staff of printers a settled salary.
6. The British colonies in North America were not permitted to mint money without the approval of the British Crown, and the colonists also lacked the skill and equipment required to produce coins. In addition, since colonists were in debt to British investors, the profits from American goods that were exported went to pay off debts, meaning that relatively little hard money flowed into the colonies.

Consider 9.2 (p. 147)

1. These coins would be intrinsically valuable, for the silver in them could be used for electronics, jewelry, tableware, and more; they would also have worth as collector's items. It would be preferable to sell these rare coins to coin dealers because they would pay more for the doubloons than would scrap metal dealers who would be interested only in how much silver the coins contained.
2. The pokes of dust would be inferior since the dust would be more easily lost and less portable than coins. People would also not be sure of the quality of gold dust in any particular poke. The only advantage of the pokes was that they were often more readily available than coins in remote mining districts.
3. A hoard of gold coins does not have the potential of earning interest or financing business ventures. Valuable coins are susceptible to theft, and they can be difficult to identify as one's personal property if they are recovered after being stolen.
4. This requirement forced citizens to exchange one type of money (gold) for a less valuable type (paper). Since these people paid in more than they received, the measure was indeed a form of taxation.
5. These coins are hoarded because of their intrinsic value. People do not use them to pay for purchases because the coins are worth more than paper money is.

Consider 9.3 (p. 151)

1. The price of one unit of goods in Year 1 can be figured at $1.00 since $10,000 would buy 10,000 units. One unit of goods cost $2.00 in Year 2, $2.67 in Year 3, and $0.50 in Year 4.
2. The price of goods went up in Year 2 and Year 3.
3. The price of goods went down in Year 4.
4. Economists mean that inflation is the result of a supply of money that increases faster than the supply of goods. When

the number of goods available does not increase at the same rate as the amount of money, money will buy less since goods have become comparatively scarce. Money is only as valuable as what it can buy; the value of money can never be higher than the value of available goods.

5. Answers may vary. The most popular answer will probably be the Great Depression of the late 1920s and early 1930s, a time in which there were scores of bank runs. State and national "bank holidays" were declared in order to give banks time to calm the fears of depositors and assure them that their money was safe. Some banks failed anyway, but many remained in business.
6. Four thousand dollars' worth of silver coins would have been too heavy and bulky for one man to carry, whereas that amount in paper money could be easily carried in one's pocket.

Consider 9.4 (p. 154)

1. A traveler's check performs all three functions of money: it is a medium of exchange, it provides a measure of value, and it provides a store of value. A check written against a transaction account, on the other hand is merely a document authorizing a transfer of funds that may or may not exist. Stores are more likely to accept traveler's checks because the checks themselves are money, whereas transaction account checks have to be cleared through banks first and may bounce.
2. Financial worth would remain the same. The cardholder could use the card to obtain goods whose prices totaled $1,000, but he would have to pay back the amount of money he borrowed from the credit company.
3. Answers will vary. Students should realize that banks and other credit agencies often refuse to loan money to people with bad credit and that people whose credit ratings are poor are charged high interest rates.
4. Answers will vary. Several guidelines are listed in the "Card Smarts" box, but students can get more specific. An example may be a student's decision never to charge more than what he knows he can pay when the monthly payment is due.

Consider 9.5 (p. 158)

1. Interest rates go up when loans become harder to obtain in the same manner that prices rise when goods become more scarce. When lenders have more money on hand, they compete with one another to find reliable borrowers by offering low interest rates.
2. The Federal Reserve would adopt an easy money policy, which implies that more money goes into circulation since loans are easily granted. More money equals a larger money supply.
3. Both items are backed only by the word of the issuing party. Federal Reserve notes, however, are legal tender backed by the American government, whereas personal checks are not legally considered money and are backed only by the word of private individuals and businesses.
4. Paper money is not valuable in and of itself. If too much money is printed and placed into circulation, then inflation skyrockets and prices spin out of control. A government must obtain money that is worth something, which it does by taxing its citizens. The people's money is worth something since they had to work and save in order to acquire it.
5. This system would not work, for credit cards are not a form of money. Poor people may be able to obtain some of the things they need, but someone somewhere would have to pay for those goods. Credit card companies, not being able to absorb the cost of all the goods poor people charged on their cards, would quickly declare bankruptcy, and that would be the end of the entire scheme.

Consider 9.6 (p. 161)

1. The moral lesson of the Midas myth is that it is dangerous to be driven by the lust for wealth. Those who place the pursuit of wealth above all else will be destroyed by their own greed.
2. Answers will vary. Students should be able to think of many real-life examples.
3. No matter how wealthy people became, their sinful, greedy natures would remain unchanged. History and observation have shown that rich people are tempted by the same basic vices which tempt poor people.

4. Jesus was not telling His followers that they should not save money, but that their primary focus should be on spiritual things. In other passages, the Bible instructs Christians to be good financial stewards which includes saving money for the future. Both the Old and New Testaments give examples of believers who were materially wealthy. Christians should be careful, however, to follow the Lord's leading in using their material blessings to help others and to further the spread of the gospel.
5. Some people generously give of their energy, time, and money to good private and public causes, but this does not mean that everyone else will do the same. Expecting people to work without monetary reward has been the goal of utopian social experiments implemented in many Communist and socialist countries throughout history. These plans have completely failed to produce the healthy and productive society attainable only through a system based upon rewards.

Chapter 9 Review (p. 162)

Define

1. **money**—anything generally accepted as a means of payment
2. **barter**—the direct exchange of one good for another good without a standard form of money passing from hand to hand
3. **specie**—coined, metallic money
4. **face value**—the asserted value of money
5. **inflation**—the situation that occurs when market prices rise because too much money is in circulation
6. **deflation**—the situation in which prices decrease because money seems more valuable and stable
7. **bullion**—gold, silver, or platinum, usually in the form of bars, ingots, or plates
8. **fiat money**—legal tender backed by nothing but a government's promise
9. **near-money**—asset that can be easily converted into M1 because it is highly liquid
10. **monetarism**—the theory that variation in the money supply is the main source of economic fluctuations

Identify

1. to be a medium of exchange, to provide a measure of value, to provide a store of value
2. portability, durability, homogeneity, divisibility, constancy, intrinsic valuableness
3. "Bad money drives out good," or the idea that people save money that seems more stable and valuable, while spending the money that seems less valuable
4. United States Department of the Treasury
5. Board of Governors, Federal Open Market Committee, Federal Reserve Banks
6. Milton Friedman

Explain

1. Advantages of bartering are that buyers need not have a money system and they need not use cash which they wish to reserve for other purposes. Disadvantages are that bartering frequently requires much time and hassle and that goods are often not readily divisible, meaning that swapped goods have to be basically equal in value if a trade is to occur.
2. Money that has intrinsic value can be used for purposes other than for use as money. Money that has intrinsic value is more stable than money that has none.
3. Many government officials have debased their nations' currencies in order to raise money for themselves. Debasing the coinage is a disguised form of taxation because the new money is not as valuable as the old money.
4. No. Many governments have declared certain objects that have little or no intrinsic value to be money.
5. The fractional reserve banking system began when goldsmiths found that they needed to keep on hand only a portion of the gold that they had collected from depositors. Fractional reserve banking allows banks to hold less than 100 percent of deposits in reserve and to use the rest of it in other ways. By lending out portions of their deposited money, banks are creating money that is not backed by bank assets.
6. **M1** is that part of the money supply consisting of the money in transaction accounts, traveler's checks, and all coins and currency held outside of banks; **M2** consists of M1 plus noncheckable savings deposits, money market mutual funds and similar deposits, and time deposits worth less than $100,000; **M3** includes time deposits worth over $100,000 as well as the money counted in M2.

7. A credit card merely allows its holder to obtain short-term loans from the credit card company. A credit-card receipt is the cardholder's promise to pay back the company.
8. The chief aim of the Federal Reserve System is to form America's monetary policy and thereby control the money supply. Its three main tools are open-market operations, reserve ratios, and discount rates. The Fed uses these to expand and contract the nation's money supply.
9. The Fed would pursue an easy money policy during a recession in an attempt to encourage expansion of the economy.
10. Money in itself is neither good nor evil, moral nor immoral. Everything depends upon the uses people make of money.

Concepts to Consider

1. Because gold has intrinsic value and is available in limited supply, the metal has remained largely unaffected by fluctuations in the economy. The value of the current American dollar is more easily affected by changes in the economy.
2. Governments that print vast quantities of paper currency run into the danger of inflation—too much money chasing too few goods. A system based on paper money would not be likely to work forever since the system is easily abused.
3. During war and times of economic hardship, governments have often issued fiat money. Governments also issue unbacked money in order to pay off their debts and to pay for various programs they think will keep their people happy. Answers will vary for the second half of the question.
4. No. A person who has trouble living within his means would be susceptible to using his credit cards irresponsibly. He could soon end up being heavily in debt and in trouble with credit-card companies.
5. Answers will vary. The danger with loving money is that it gives precedence to material things over God and human beings. The love of money turns human beings into selfish and lonely people, and out of the love of money people have committed many ghastly crimes.

Chapter 10 Government & the Economy pp. 163–180

Consider 10.1 (p. 166)

1. Answers will vary. One example is the rationing of natural resources and consumer goods during WWI and WWII. The government rationed these goods in the domestic market so that they could be shipped overseas and used to help win the wars.
2. Most economists agree that inflation is the main reason that the price of gold has risen so dramatically since 1849.
3. The rush of migrants caused the demand for goods to increase much faster than the supply that merchants could make available. Therefore, because goods were so much more scarce, people had to compete to obtain them by paying higher prices.
4. Answers will vary. Prices tend to rise dramatically because of the lack of stabilizing influences and because crime and corruption usually soar out of control. Productivity falls, and people charge high prices because they do not know what to expect.

Consider 10.2 (p. 168)

1. If each of the nation's producers works hard to improve his productivity, thereby increasing his own profits and wealth, the country's economy prospers and everyone benefits.
2. Answers will vary. Students may mention decisions that have had to be made because of property and income taxes, inflation, welfare policies, interest rates, governmental public projects, etc.
3. As of 2010, Taiwan, Switzerland, Canada, South Africa, Japan, and Germany were countries whose markets would be classified as primarily free. Those countries with command economies were Cambodia, China, Vietnam, and North Korea.

4. Wars tend to stimulate domestic industrial and commercial growth, while at the same time advancing scientific research and technology, such as the research that lead to the invention of nuclear power and radar. These economic booms tend to be followed by recessions once wars are over and the demand for goods decreases.
5. Free people generally have the liberty of private property, enterprise, and savings along with freedom of consumer choice and similar freedoms that contribute to the growth of a free market. These freedoms generally encourage a combination of strong work ethic and high morals resulting in the efficiency and trust necessary for prosperity.
6. The woman is making a microeconomic decision. Although the purchase is large and important to her, it has little effect on the economy as a whole.
7. The legislature is making a macroeconomic decision, for it is approving a public policy that will have a financial impact on millions of people.
8. Even though he is an influential person, a President's private investment of his personal savings is a microeconomic decision. If the President tries to influence what millions of other citizens do with their money, however, the President is urging a macroeconomic policy.

Consider 10.3 (p. 171)

1. Existing businesses would not have enough money to operate effectively. Efficiency and productivity would decline, and prices would rise. Many businesses would go bankrupt and the remaining ones would probably seek to relocate in another state. There would be little for the state to tax since business would be so greatly diminished, and the government would be much worse off than it would have been had it not imposed the tax.
2. The time and money involved in implementing these regulations would greatly diminish the efficiency of hospitals. More physicians and other hospital staff would be needed to handle the additional workload, and all doctors would have to buy so much insurance for protection against malpractice suits that their profits would be severely reduced. Eventually, fewer people would be attracted to the medical field, resulting in a national shortage of doctors and a decline in the quality of medical care available in the country.

Consider 10.4 (p. 179)

1. Basic needs are best provided for by the work of a nation's citizens—not by government officials. It would be impossible for the government to produce enough goods to distribute to everyone. Many totalitarian governments have failed in this regard. Prosperity is the result of a free market, not of governmental decree.
2. Some of the essential services are maintaining the armed forces and protecting the nation, maintaining the postal service, conducting diplomatic relationships with other nations, protecting the public from crime, etc. Taxpayers provide the capital and money that the government uses to furnish goods and services. Government activities to be eliminated will vary.
3. Answers will vary but may include several socialistic policies and anti-religious ideas.
4. Many people on welfare remain poor and jobless because they receive just enough to survive without having to work, and those who truly do need financial aid often do not receive enough help. Private charities have been shown to be much more efficient with the money they handle than government bureaucracies are, but many people do not contribute to private organizations because they believe that government is doing enough.

Chapter 10 Review (p. 180)

Define

1. **government**—an established system of political administration by which a nation, state, society, or organization is ruled
2. **socialism**—an economic system based upon collective ownership and control of national resources
3. **bureaucracy**—a large, complex organization composed of appointed officials and their numerous agencies and departments
4. **Keynesianism**—economic philosophy based on the belief that society's economic

problems can be better solved by "expert planners" than by the natural corrections of a free market

Identify

1. to punish evil, to reward good
2. excessive taxation, inflation and debasement of the currency, excessive public expenditure, excessive regulation and direction of the economy, and political plundering of the economy
3. New Deal
4. John Maynard Keynes
5. David Crockett

Explain

1. In keeping with the government's purpose to punish evil and reward good, it is government's duty to guard a nation's boundaries and protect its citizens from foreign raids and invasions. A nation needs the God-ordained institution of government to keep its people safe from both domestic and foreign evildoers.
2. While the government's job of protecting the people does not involve tight economic regulation, a healthy economy needs governmental protection against people who would abuse the market.
3. The private sector is bigger because it is the one that has ultimate control of most of the available factors of production.
4. Answers will vary. Government's macroeconomic policies regarding taxes, money supply, budgets, imports and exports, foreign affairs, etc., directly affect the economic choices made by U.S. citizens.
5. Probably not. Even though the market is basically capable of regulating itself, it relies on governmental protection from those that would seek to harm or destroy it.
6. *List the steps in the downward economic spiral caused by excessive taxes and clarify how these steps are linked.*
   (1) Individuals and firms cannot save enough money to provide for the replacement of capital goods or for new capital investments intended to increase production.
   (2) When there is little or no investment in new or used capital goods, production of goods and services diminishes.
   (3) When the supply of goods diminishes, prices go up and the population's needs are not adequately satisfied.
   (4) In the attempt to satisfy public demands, the government often tries to provide for people by furnishing goods. To pay for these handouts, the government increases taxes; when taxes are increased, there is still less saving of capital. The economy continues to spiral downward toward national bankruptcy.
7. No. Government itself must be supported by the labor of its citizens.
8. Americans have become increasingly complacent about governmental control and regulation of the economy. Many citizens have come to expect government to provide for their financial needs.
9. Governments raise money by increasing taxes, borrowing money, or creating unbacked money. These methods are harmful since they take money away from the private sector and increase the money supply, thereby causing inflation.
10. Because men and women enjoy the supposed "benefits" they receive from government programs, they are reluctant to eliminate the source of handouts.
11. Economic freedom and religious freedom are closely connected, for without the freedom to choose how and where to spend money, where to work, how to provide for one's family, etc., there can be little religious freedom. Unless a nation's people have a strong moral background, they will not have the character needed to maintain economic freedom.
12. The United States Constitution does not provide lawmakers the authority to give away public money for charity. It is not the duty of public officials to make moral decisions regarding how the people's money should be spent.

Concepts to Consider

1. A people accustomed to freedom are not usually receptive to the sudden nullification of all their economic rights. Instead, socialism gradually erodes freedom by promising certain benefits in exchange for somewhat tighter regulations or slightly higher taxes. Americans would probably not have accepted all the current governmental programs, for they would be able to see how inefficient and detrimental they are.
2. A nation's prosperity is directly related to the efficiency, and therefore the prosperity,

of its people. A government cannot be wealthy if its people are not unless it owns a significant portion of the nation's resources.

3. Answers will vary but may include that inflation temporarily gives a government sufficient spending money, but within a short time prices rise rapidly, investment is discouraged, the interest rate increases, private individuals and businesses suffer economically, and productivity falls so much that the nation's wealth declines.
4. The increase of public employees financially harms those individuals who work in the private sector, for it is the people working in the private sector who must labor to pay the salaries of those working for the government.

Chapter 11 Successes & Difficulties in the Market Economy pp. 181–192

Consider 11.1 (p. 182)

1. Reasons for abandoning the old economic policies will vary but may include their old economies' inefficiency and unproductiveness, lack of freedom, pervasive poverty, and governmental ruthlessness.
2. Answers will vary.
3. The freedom to own property gives a person the incentive to work hard for his own personal gain. This encourages competition and efficiency, thus improving a nation's productivity. Officials in totalitarian countries limit the amount of personal property individuals can own in order to limit financial freedom, a policy which ultimately increases governmental control.

Consider 11.2 (p. 187)

1. This gives little incentive for unemployed people to search for work and for employed people to remain employed. As the number of employed people decreases, the burden to support the unemployed increases and national productivity goes down.
2. Due to the increased needs of the military, wars cause the demand for goods to skyrocket, thereby boosting business activity. Once wars are over, demand for goods plummets, often causing businesses to slump and the economy to slide into recession.
3. Answers will vary but may include looking for a new job, settling for a temporary job, or starting a private business.

Consider 11.3 (p. 189)

1. Inflation is caused by too much money being in circulation; stagflation is caused by too much money in circulation plus the presence of high unemployment and the resulting stagflation of productivity. Lowering taxes and letting businesses keep more money allows producers to improve their production methods, thereby increasing the amount of goods available.
2. The result would be demand-pull inflation, for the sudden ordering of all this equipment would cause the demand for goods to become greater than the supply and would force prices higher.
3. 1975–1980

Consider 11.4 (p. 191)

1. Answers will vary. Science and technology have made great advances that have allowed people to grow more food and produce more goods than ever before. People with average incomes in today's industrial societies have more conveniences and more comfortable lifestyles than the richest people had during earlier ages.
2. Production would decrease because the profit motive would be destroyed. Examples of social experiments will vary. (The Communist experiments of countries such as Russia, China, and Cuba may be cited, as well as those tried by various American groups such as the early Pilgrims, and other communal societies.)
3. Answers will vary. Students should understand that religious convictions provide the foundation for the responsible moral behavior that is necessary for a people to remain free from the external control of a government.

Chapter 11 Review (p. 192)

Define

1. **business cycle**—cyclic fluctuation in the level of economic activity
2. **GDP**—gross domestic product; the value of all finished goods and services produced within a country during a year's time
3. **GNP**—gross national product; the value of all finished goods and services produced by a nation's citizens during a year's time
4. **depression**—a recession that is unusually severe and long-lasting
5. **leading indicator**—component of the economy that normally changes before the rest of the economy
6. **CPI**—Consumer Price Index; a tool used to measure the growth of inflation, based on the average price consumers pay for specific goods and services
7. **base period**—period that serves as a reference point to which prices are compared
8. **stagflation**—the economic condition in which high inflation is combined with high unemployment, resulting in stagnation of productivity

Identify

1. the presence of business fluctuations, inflation, and selfishness and injustice
2. expansion, peak, recession, trough
3. Demand-pull inflation is caused when the demand becomes greater than the supply, resulting in shortages. The high demand for goods forces up the prices that consumers must pay to satisfy their wants. Cost-push inflation is triggered when businesses face rising costs in producing goods, forcing them to increase the prices they charge for their goods.
4. supply-side economics, initiated by Ronald Reagan

Explain

1. People living in free market conditions normally have the freedom to say whatever they want about national issues. Those living in command economies are not usually allowed to say anything against their economies.
2. The new and improved technology made available by researchers and inventors results in increased efficiency and greater productivity.
3. GDP only includes those goods produced within the U.S. borders. This includes Japanese products made in the U.S. but not U.S. products made in Mexico.
4. Recessions are necessary to weed out inefficient producers, stimulate competition, use up accumulated stocks of goods, and reduce prices.
5. Economists pay attention to leading indicators because they may be able to note important alterations in the national economy and to recommend steps which could modify dangerous trends. People should not base their business decisions solely on this economic tool since economists often make mistakes, miss important information, and misjudge the importance of certain trends.
6. Cost-push inflation would likely result because businesses would face rising costs in producing goods, forcing them to increase the prices they charge for their goods.
7. By reducing taxes, the government makes more money available to the private sector. The private sector invests this money in capital, R&D, and new business enterprises—all of which help to employ more people and increase productivity.
8. In order to improve his personal situation, a person must provide goods or services that others are demanding. When individuals try to increase their profits by engaging in unethical practices, such as lying and cheating, people cannot trust one another and the moral foundation needed for free enterprise is harmed.
9. No. History has shown that selfishness and envy are rampant in countries with command economies. Governmental officials and key individuals often selfishly take advantage of the labor of others, taking away the profit incentive while greedily filling their own purses. Since the common people are not allowed to try to gain more goods for themselves, they often end up greedily envying the goods enjoyed by the elite.

Concepts to Consider

1. Many governments often claim that their currencies are worth more compared to the American dollar than what their moneys are really worth. Therefore, the salaries of their people are artificially high. The

people are not able to buy as much with their salaries as Americans can.
2. Major technological innovations cause the creation and growth of new industries, ultimately resulting in an expanding economy since more goods are produced.
3. Consumers are most interested in purchasing new cars during the expansion phase of the business cycle since the economy is growing, salaries are rising, and unemployment is shrinking. A new car dealership would be most likely to succeed if it were started in the midst of an expansion.
4. Demand for goods is high during wars because of the increased needs of the military. Businesses invest in the capital and technology needed to increase productivity, causing the amount of goods produced to rise significantly.
5. When governmental mismanagement causes inflation, the government is effectively taxing its people since they are deprived of the ability to purchase as much as they could in the absence of inflation.

Chapter 12 Promise & Performance in the Command Economy pp. 193–205

Consider 12.1 (p. 195)

1. Answers will vary. Some representative countries are Russia, Ukraine, Poland, Hungary, Romania, Bulgaria, East Germany, Czechoslovakia, Yugoslavia, Albania, Estonia, Latvia, Lithuania, Mongolia, China, North Korea, Vietnam, Cambodia, Laos, Ethiopia, Angola, Mozambique, Cuba, and Nicaragua.
2. Such an economic setup is unfair to those who work harder and more efficiently than the rest. Since a perfectly egalitarian society would provide little incentive for personal diligence and thrift, the economy would not be prosperous and everyone would be equally poor.
3. When people focus only on economic gain, they resort to actions that are immoral and harmful to themselves and others. Christians should focus on obedience to God as their main goal; and in following His Word, they will manage their economic affairs wisely while acting honestly and charitably toward others.
4. History has proved that command economies are notoriously inefficient. Supervision and coercion are poor substitutes for the incentives offered in free market economies. Free markets encourage workers to come up with better ways of producing, while a command economy, no matter how many supervisors it has, does not.

Consider 12.2 (p. 198)

1. People wished to leave because of East Germany's poor economic conditions, lack of freedom, and governmental corruption. Many were eager to find better jobs in the West and to be reunited with family and friends. Relatively few people wished to enter East Berlin, but those who did were allowed to travel much more openly since the West Berlin government left people free to travel when and where they chose.
2. Economic problems caused by years of harmful governmental policies cannot be quickly swept away. It has taken the Germans time to implement free market principles and to obtain the capital needed to improve the industries and businesses located in what used to be East Berlin.
3. Keeping inaccurate records is common in countries with command economies to cover up production deficiencies and theft. When motivation for integrity is lacking, it becomes difficult to find people who are conscientiously concerned about their responsibilities.
4. Answers will vary.
5. The people survived by producing goods themselves, bartering with neighbors, and resorting to the black market. Many families grew much of their own food in garden plots, and people sewed their own clothes and made their own household goods

whenever possible. The stores in the Soviet Union were able to stay open because they were supported by the Communist government.

Consider 12.3 (p. 201)

1. If Marx's books and pamphlets had never been written and his ideas never carried out, the 20th century might have been much more peaceful and less bloody. The Communistic governments of the Soviet Union, China, and Cuba have been responsible for numerous wars and the deaths of millions of people.
2. Centralized production and distribution almost always cause efficiency to fall and prices to rise. Mass production, standardization, and accurate estimations of demand help lower the cost of producing goods, but customers appreciate choices. Centralization causes businesses to mass produce objects that do not match demand because customers are unique with individual tastes and values.
3. Bureaucratic governments have difficulty with decision-making since almost all decisions, even small ones, have to go through many channels and be approved by numerous people.
4. Answers will vary. The switch between economic systems would cause some factories and stores to go out of business because the government no longer regulates and supports them. Citizens and businesses would have to learn how to make their own choices, and some workers might leave the country to settle in a country with an already healthy economy.

Consider 12.4 (p. 204)

1. Many countries have adopted various forms and degrees of socialized health care, including Sweden, the United Kingdom, New Zealand, Japan, Mexico, Germany, and even the United States. Socialized medicine has never worked efficiently.
2. This new rent regulation would not end up being beneficial to either the Fernandez family or to Mrs. Andrews. In order to make ends meet, Mrs. Andrews might stop repairing the house, or she might decide not to rent out the house anymore. Either of these measures would hurt the Fernandezes.
3. This measure would not help poor people since meat would become more difficult to obtain. Meat producers would no longer make meat available since they would not be allowed to make decent profits. Farmers, butchers, and retailers might begin secretly selling meat for higher prices, effectively creating a black market for their goods.
4. All housing must be paid for by somebody. If the state owns all housing, the state must pay for it by adopting high tax rates, printing and inflating money, or borrowing—all of which are measures that would ultimately cost people more money than if they paid for their housing directly. People would also be less free, for the government would decide what kind and how many houses to build, and it would direct the people where they must live.

Chapter 12 Review (p. 205)

Define

1. **nationalism**—the promotion of one's own nation and government regardless of moral considerations
2. **Communism**—an economic system based upon public ownership and governmental control of the production and distribution of nearly all national resources
3. **bourgeois**—according to Marxist philosophy, a member of the class of people who own capital or property
4. **proletariat**—according to Marxist philosophy, a member of the common working class
5. **utopia**—perfect society under Marxist ideas
6. **socialism**—any economic system based upon collective ownership and control of many or most national resources

Identify

1. Bolshevik Revolution
2. Karl Marx
3. *The Communist Manifesto*
4. welfare capitalism, managed capitalism, democratic socialism, market socialism

Explain

1. Although a mildly socialistic country is somewhat regulated, the private sector remains large and the operation of the market has not been completely abolished. A Communistic country is almost totally regulated, and private individuals have few choices about the production, distribution, or consumption of goods.
2. The dreams of early Communists have never been fulfilled. Complete equality of condition for all people has never been achieved. All Communistic countries have had grave problems with inefficiency and poverty because their markets are not allowed the freedoms they need to flourish.
3. West Berlin, under the democratic government of the Federal Republic, enjoyed a vigorous free market economy that was efficient at making goods available. East Berlin, under the control of the Communists, possessed a stagnant, poverty-stricken economy that was inefficient at producing the products people needed.
4. East German officials felt that the Berlin Wall was necessary to prevent East Germans from escaping, for before the wall was built, thousands of East Germans crossed the border into West Berlin. Without the wall, East Germany would have become so depopulated it could not have survived.
5. While they are never as prosperous as free market economies, certain command economies have been able to survive with varying degrees of success. Fear and intimidation are used in countries with command economies, for there are no other incentives to motivate people to work since financial motivation has been taken away.
6. State planners cannot accurately estimate the potential demand for goods. Officials may overestimate the demand for goods, resulting in surpluses; or they may underestimate demand, causing shortages.
7. No matter how inefficient they were, the Soviet Union's government-backed monopolies were not allowed to fail and go out of business.
8. What Communism achieves through revolution and bloodshed, socialism accomplishes gradually through legislation and laws that often have the approval of most citizens. People often do not realize until too late that their political and economic freedoms have been taken away.
9. Everything a government provides has to be paid for in some way by somebody, and governmental bureaucracies are notoriously inefficient at handling money wisely. When government becomes involved in what should be left to the private sector, individual freedoms are destroyed.
10. When governments regulate businesses and industries, taxes and inflation increase, production prices and consumer prices rise, personal freedoms disappear, etc.

Concepts to Consider

1. Communism and socialism promote the belief that man is inherently good and that utopia can be achieved through his own effort. These philosophies attempt to establish man in the place of God.
2. Marx felt that if children were trained in Communist ideology they would be more receptive to government policies when they grew older.
3. Because command countries have numerous faults, their governments have to tightly regulate the words and thoughts of people in order to keep them under control. Control is achieved by distributing propaganda that promotes socialism and slanders free enterprise.
4. Because of the inefficiency and low productivity of their flawed systems, some Communist countries have permitted elements of free enterprise in order to keep their economies alive.
5. Adopting a universal health care system similar to Canada's would greatly reduce the quality and availability of health care in the United States. The government would have to set budget limits, which would force hospitals to turn patients away, prohibit doctors from prescribing certain expensive drugs, force patients to wait for needed surgeries, and kill business incentives for developing new drugs and medical technology.

Chapter 13 A Look at the Global Economy pp. 206–220

Consider 13.1 (p. 210)

1. The people in Genesis wanted to make their own rules and live independently, apart from a higher authority. God chose to confuse the language so that people would see the folly of thinking that they had no need of Him. The hundreds of different languages in the world today continue to hamper globalization, but the technological explosion of the last century has made it much easier for people from all over the world to communicate.
2. Answers will vary. Advantages would be freer trade, more accessible information, the coordination of power, and similar items while disadvantages include decreased national sovereignty, inefficiency, increased regulation, and the high costs of bureaucracies.
3. Answers will vary.
4. Answers may include the Korean War, the Vietnam War, and the Gulf War. Students should understand that it is impossible to make any world agreement strong enough to restrain man's sin nature.
5. Answers may include that the distribution of resources decreases productivity and efficiency while encouraging irresponsibility. The world's total wealth would likely decline if money were spread equally among everyone.

Consider 13.2 (p. 219)

1. The existence of global trade organizations is not justified by the desire for free trade. They hinder free trade through their numerous laws and guidelines that regulate international trade. Nations lose their sovereignty to bureaucratic agencies that are not in touch with individual countries. Trade organizations are not cost-effective or efficient.
2. This policy does not allow each individual nation to pursue policies that would be the best for it. Some countries are able to profit more from the WTO's policies than are others, and this also is not "fair." A nation should be able to decide which countries to trade with based on historical, economic, and moral considerations.
3. When a country such as the United States trades with nations such as China, the trade helps support the economies of the totalitarian countries. The money brought in through international trade allows governmental corruption to continue since the national leaders are not forced into exchanging their oppressive, totalitarian policies for free market measures.
4. Unlike multilateral treaties, bilateral agreements enable a country to maintain its sovereignty and make decisions based on national interests and moral principles.
5. No organization is capable of controlling millions of men and women, and the UN has proven to be extremely inefficient. If relatively moral countries, such as the United States, significantly reduce their military capabilities, those corrupt nations which still maintained large militaries could try to take over the world.
6. The UN would probably have tried to send "peacekeeping troops," which would have been under the command of foreign officers. Most Americans would have deeply resented both the "peacekeepers" and the nations that meddled with the country's own affairs.
7. Any government encounters people who oppose its policies. A one-world government would only be successful if it eliminated those who opposed its authority.
8. The ends do not justify the means. If a politician deceives the voting public into supporting his personal agenda, he is little better than a dictator who forces his own opinions on others. In order to establish good relationships with their constituents, lawmakers must always tell the truth.

Chapter 13 Review (p. 220)

Define

1. **globalism**—a philosophy which regards the entire world as one giant community that should be unified politically and economically

2. **UN**—United Nations; organization whose original stated purpose was the promotion of world peace and economic prosperity
3. **World Bank**—organization originally established to lend money to battle-torn Japan and Western Europe after WWII, but which presently acts as a welfare agency that loans funds to countries in poverty or financial distress
4. **WTO**—World Trade Organization; agency that purposes to assist the free flow of trade among nations, help countries establish free trade through negotiations, and resolve trading conflicts
5. **GATT**—General Agreement on Tariffs and Trade; regulations that guided international trade before the WTO's establishment in 1995
6. **NAFTA**—North American Free Trade Agreement; regional trade agreement adopted by the United States, Canada, and Mexico in 1993
7. **EU**—European Union; a closely knit alliance of the countries of Western Europe that controls many of the region's economic, legislative, and judicial policies
8. **national sovereignty**—the exclusive power of an independent state to rule and regulate internal affairs without foreign interference

Identify

1. International Bank for Reconstruction and Development and International Development Association
2. United States, Canada, Mexico
3. euro
4. the **General Assembly** discusses international problems and recommends plans of action; the **Security Council** makes decisions about UN involvement in national and international conflicts; the **Economic and Social Council** studies economic and social problems and makes recommendations to individual nations, the General Assembly, and other UN agencies
5. Kyoto Protocol

Explain

1. World War II
2. Nations are eager to join the EU because the organization promises an efficient common currency, increased world influence, assured security, and an absence of trade barriers. Today, the EU has taken on the roles of international judge, banker, and legislator, making rules and setting precedents that all member countries are obligated to follow.
3. Free trade has been proved to be advantageous to those involved, but globalists erroneously claim that the benefits of free trade are best realized by unifying national economies into one gigantic global economy.
4. The assumption made in this statement is that nations which depend upon each other for the exchange of needed goods and services will be reluctant to engage in war. There are many historical instances of trade partners fighting with each other, proving that this statement is false.
5. No. Problematic nations and leaders place their own desires and ambitions first, caring little about the disapproval of other nations.
6. The UN was founded on Communistic and socialistic principles, making the organization ultimately sympathetic toward totalitarian regimes. The organization has overlooked or aided the aggression and expansion of various domineering governments and countries.
7. First, these organizations enable countries to become addicted to borrowing and debt. Second, they subsidize governments and leaders that are incapable of handling finances responsibly. Third, they are not accountable to anyone for how they spend their resources.
8. A multilateral trade agreement is one that involves more than two nations. A bilateral agreement is one that affects only the two parties that make it. Bilateral agreements would be better, for they would respect the sovereignty of the United States, enabling the country to consider national interests and moral principles in its trade with other nations.
9. Private sector agencies have the incentive to be productive because they will cease to exist if they are inefficient or if people do not approve of the work they do. Public aid agencies are not held accountable for their operations.
10. Free market economies provide the private sector with money, capital, and incentives

to discover and adopt efficient, environmentally sound production techniques. Countries with command economies deny their private sectors the capital needed for the development of environmentally sound practices.

11. Responsible citizens across the nation must elect leaders and support legislation that provide for complete national sovereignty, sound business practices, and limited governmental regulation.

Concepts to Consider

1. Because of his sin nature, man has wanted to live apart from God. People do not want to be told what is right and wrong, what to do and what not to do, or whom to obey.
2. While it is essential to be ethical and truthful in dealing with others, being "fair" in the sense of distributing resources and trading with everyone equally is not one of the most important considerations. If people and countries are forced to be "fair," they are required to put aside economic, profitable, and moral considerations.
3. Many of globalism's most vocal advocates support globalism because of the financial and political benefits that they themselves expect to procure. They have placed personal power and financial gain over national sovereignty and personal liberty. Many people are willing to sacrifice freedom if they are promised economic benefits in return.
4. Whenever a nation reduces its military strength, it weakens its ability to defend itself, maintain national sovereignty, and ensure that a strong command economy does not spread across the world. Decreasing the nation's military size gives global organizations, such as the UN, increased power and influence, a dangerous precedent.
5. Many people think these organizations are capable of helping poverty-stricken countries and that there is little they themselves can personally do to help. Since people are forced, through taxation, to contribute to these organizations, they do not have as much disposable income that they could use to aid others.
6. Globalism seeks to place everyone under a central political and economic authority. Globalism would establish totalitarianism, causing the American people to lose their freedoms to buy and sell as they see fit, choose their political leaders, decide where to work and live, etc.

Chapter 14 A Cheerful View of Our Economic Future pp. 221–234

Consider 14.1 (p. 226)

1. In more recent history, many nations have fallen prey to various forms of Communism and socialism, depriving people of political and economic freedom. War is inevitable and fewer people now believe that it will ever be eliminated. Christianity is suppressed in the name of tolerance, squelching the very light of hope and peace.
2. Although there are places where many of the residents are barely able to survive, people are generally better off economically than ever before. Both the rich and the poor have benefited from improvements in agriculture and technology. Overall, people have more goods today than they did in the past.
3. American voluntary organizations and the government have given large contributions of food, supplies, and money to famine-stricken countries. If there were no rich nations with food reserves, many more people in famine-plagued countries would starve to death.
4. Answers will vary.
5. Bolivia's history is plagued by several violent political revolutions while the Netherlands has led a relatively peaceful existence. Bolivia's former political condition discouraged saving and investing and made long-range financial planning difficult. Bolivian leaders desire a larger population because their country lacks a supply of labor that would be sufficient to develop the land's

abundant resources. By contrast, the Netherlands has long had an abundant supply of skilled labor ever since medieval times.

6. The Porters would likely welcome their new neighbors for many reasons. The Shaughnessys could help defend against Indian raids, provide companionship, build houses, raise barns, and harvest crops.
7. Wars tend to upset economic stability, disorient societal class distinctions, and cause people to accept any form of government that promises to restore peace. Only later do people realize, when they are under tyrannical control, how high a price they paid in their efforts to obtain peace and stability.

Consider 14.2 (p. 231)

1. The measures advocated by this imaginary leader would result in a dictatorship and a command economy. His "reforms" would result in the abolition of many of the nation's freedoms; the resulting loss of the capitalistic market and private property would bring certain ruin to the nation's economy.
2. Answers will vary. Discuss the advantages and disadvantages of each of Mr. McCullough's options mentioned in the text, as well as the difficulties facing America's small-business owners.
3. Only those who chose to buy products from Gray Iron Fabricating were required to pay the company money. No one, however, was obligated to purchase products from Gray Iron, for there are numerous foundries in the United States that produce iron and steel.
4. Answers will vary. There have been many famous people, such as Napoleon and Hitler, who were destroyed by their avarice. Many governments and individuals fall into avarice when they decide to increase their wealth by taking away what rightfully belongs to others.
5. When government controls production, the national income plummets, and society is reduced to abject poverty and starvation.

Consider 14.3 (p. 233)

1. Most successful business owners work hard in order to build their reputations around honesty, good service, low prices, quality goods, etc. Consumers usually consider the characters and reputations of the producers and distributors. Businesses sometimes do consider the characters of potential customers, for they are not likely to sell to someone they know bounces checks or has a poor credit rating.
2. Answers will vary.
3. Answers will vary. Some ideas might be spending and saving money wisely, working efficiently on the job, and keeping track of economic and political events and trying to understand how they affect society.

Chapter 14 Review (p. 234)

Identify

1. Thomas Robert Malthus
2. honesty, industriousness, charity, fortitude, generosity

Explain

1. The available supply can increase as people discover new sources, develop new substitutes, invent more efficient means of producing goods, and improve processes for recycling resources.
2. The food supply has been able to grow faster than the population because of the research and development of improved agricultural methods and equipment, allowing fewer and fewer people to produce more and more food.
3. Examples may vary. During the past 400 years, people have come up with better, safer methods for the removal and disposal of garbage and sewage. Air, soil, and water have become cleaner in many areas as science has developed better pollution-reducing techniques.
4. No. Many people greatly value their freedoms and would not give them up even if command economies were more efficient than free market ones.
5. The costs for businesses to produce goods is high since they have heavy obligations to meet and are not able to invest much capital in themselves. Businesses make little, if any, profit, and consumers are forced to pay high prices for goods. The productivity, efficiency, and wealth of private businesses and individuals decline, bringing the economy to ruin.

6. The couple ended up killing the goose—the source of wealth—in the vain attempt to extract as much gold as possible all at once. In the same way, a government that tries to get as much money as fast as possible from the private sector ends up destroying its only source of income.
7. All people are moral creatures, and all human institutions are influenced by the right and wrong choices that people make. The success or failure of an economy depends upon the decisions of the people that influence them.
8. People involved in a free market must be able to trust one another in order to buy and sell productively. Honesty is still important in countries with command economies even though their governments try to force people to behave in certain ways and the government officials themselves are usually dishonest.

Concepts to Consider

1. Some economists use pessimistic prophecies to scare people into supporting socialistic measures. These economists often stand to gain power or wealth through the increase of government's role in an economy.
2. The amount of available resources will decline if there are fewer people working on finding efficient ways to discover, extract, and use them.
3. Answers will vary. Many examples of empires and nations—such as Communist Russia, Hitler's Germany, and Saddam Hussein's Iraq—have experienced economic disasters resulting from their peoples' progressive lack of morality, giving credibility to MacArthur's statement.
4. This philosophy contradicts the biblical teaching that all men are sinful and depraved. Because man has a sin nature, he seeks his own profit and will not naturally work for the good of others. Only when there are personal incentives will he work hard.

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